SECURITIES AND EXCHANGE COMMISSION
SEC FORM 12-1, *AS AMENDED*

REGISTRATION STATEMENT UNDER THE SECURITIES REGULATION CODE

1. SEC Identification Number: **AS096-005555**

2. **PHILIPPINE NATIONAL BANK**
   Exact name of registrant as specified in its charter

3. **METRO MANILA, PHILIPPINES**
   Province, country or other jurisdiction of incorporation or organization

4. **000-188-209**
   BIR Tax Identification Number

5. **UNIVERSAL BANK**
   General character of business of registrant.

6. Industry Classification Code: ______ (SEC Use Only)

7. **PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City 1300, Telephone No. 8916040 to 70, 5263131 Telefax: (632) 834-0780**
   Address, including postal code, telephone number, FAX number including area code, of registrant's principal offices

8. **N/A**
   If registrant is not resident in the Philippines, or its principal business is outside the Philippines, state name and address including postal code, telephone number and FAX number, including area code, and email address of resident agent in the Philippines.

9. Fiscal Year Ending Date (Month and Day): **DECEMBER 31**

Computation of Registration Fee

Title of each class of securities to be registered	Amount to be registered	Proposed Maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Common Shares	423,962,500	₱70.00	₱29,677,375,000.00	₱8,061,662.19

PHILIPPINE NATIONAL BANK

Primary Offer of 423,962,500 Common Shares at an Issue Price of ₱70.00 per share to be issued in favor of all of the shareholders of Allied Banking Corporation pursuant to the Plan of Merger of Philippine National Bank and Allied Banking Corporation as approved by the Securities and Exchange Commission on 17 January 2013 and to be listed and traded on the Philippine Stock Exchange, Inc.

This Prospectus is dated 8 August 2013.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

NOTICE TO THE PUBLIC

This Prospectus is being displayed on the website to make the Prospectus accessible to more investors. The Philippine Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in the Prospectus. Furthermore, the Philippine Stock Exchange makes no representation as to the completeness of the Prospectus and disclaims any liability whatsoever for any loss arising from or in reliance in whole or in part on the contents of the Prospectus.

PHILIPPINE NATIONAL BANK
9th Floor PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City
Telephone Number- (632) 8916040 to 70/ 5263131
Facsimile Number (632) 8340780

This Prospectus relates to the offer and sale of 423,962,500 common shares (the "Shares") with a par value ₱40.00 per share of Philippine National Bank ("PNB" or the "Merged Bank"), a corporation organized under Philippine law. The Shares comprise of 423,962,500 new shares to be issued by PNB by way of a primary offer (the "Primary Offer") to the shareholders of Allied Banking Corporation ("Allied Bank"), whose Merger with PNB was approved by the Securities and Exchange Commission (the "SEC") on 17 January 2013, using the Exchange Ratio of 130 PNB common shares for each Allied Bank common share and 22.763 PNB common shares for each Allied Bank preferred share. The Shares will be listed and traded on The Philippine Stock Exchange, Inc.

Upon the approval of the Merger by the SEC, the Shares were deemed issued at a price of ₱70.00 per Share (the "Issue Price") in accordance with the Plan of Merger of the banks. The determination of the Issue Price is further discussed on page 45 of this Prospectus and is based on the share-swap ratio proposed by ING Bank, NV. As a result of the Merger, PNB will have a combined outstanding capital stock of 1,086,208,416 common shares, of which 423,962,500 new common shares are issued to the Allied Bank stockholders with an issue value of P29,677,375,000.00.

The Merger is intended to strengthen and consolidate PNB's and Allied Bank's long-term strategic business plans with PNB as the surviving bank. The Merger marks a special milestone for both PNB and Allied Bank. The synergies arising from the broadened network, diversified deposit base and improved scale will provide a compelling value proposition for their various stakeholders. In creating the country's fourth largest privately-owned bank, the Merged Bank will be in a prime position to improve customer experience and lead industry innovation. Moreover, it will yield substantial benefits for its customers and provide more opportunities for its employees.

As a result of the merger, PNB is the 4th largest private domestic bank in the Philippines with a combined distribution network of 654 branches and offices nationwide and combined total assets of ₱550.4 billion as of 31 March 2013. In addition, it has the largest international footprint across the Asia Pacific Region, Europe, the Middle East and North America and a stronger platform to offer a wider range of personal and corporate banking products and services, and become a leading player in its chosen markets.

While there are no cash proceeds from the Merger, it is expected to result in revenue enhancements and cost savings. Cost savings will potentially come from branch re-engineering, economies of scale, consolidation of overlapping systems and corporate indirect overheads, realignment of front offices and the optimization of back office processing and support functions. The Merger is further expected to support asset growth and enable the Bank to comply with the higher capital ratio requirements of Basel III beginning 2014, particularly on the prescribed capital conservation buffer of 2.5% for Common Equity T1 (CET1).

The accounting treatment for the Merger was made in accordance with PFRS 3. The Merger was accounted for under the Purchase Method, adopting the following main principles:

- Assets and liabilities, including unrecorded intangible assets and contingent liabilities of the "acquiree" will be taken up at fair value as of the date of the Merger in the books of the "acquirer"
- Prior years' financial statements will not be restated and the income statement will only incorporate the results of the "acquiree" from the date of merger
- Equity of the "acquirer" is increased by the amount of the acquisition cost, equivalent to the number of new shares of the "acquirer" to be issued multiplied by the issue price
- The difference between the acquisition cost and fair value of the net assets of the "acquiree" as of the date of the Merger will be recorded as goodwill.

There are no underwriters, brokers/dealers engaged for this transaction and no party will receive a transaction fee from PNB from the issuance of the Shares.

Each holder of Shares will be entitled to such dividends as may be declared by PNB's Board of Directors (the "Board"), provided that any stock dividend declaration requires the approval of shareholders holding at least two-thirds of PNB's total outstanding capital stock; provided further that the Bangko Sentral ng Pilipinas (the "BSP") approves the declaration of dividends. Dividends may be declared only from PNB's unrestricted retained earnings. Please see a more detailed discussion of PNB's dividend policy under "Dividends Policy" on page 47 of this Prospectus.

The listing of the Shares is subject to the approval of the Philippine Stock Exchange, Inc. (the "PSE"). An application to list the Shares will be submitted to the PSE no later than 31 August 2013. Such an approval for listing is permissive only and does not constitute a recommendation or endorsement by the PSE or the SEC of the Shares.

Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Shares. These risks include:

- risks related to PNB;
- risks relating to the Philippines;
- risks associated with the Shares; and

- risks relating to certain statistical information in this Prospectus

See the section entitled "Risk Factors" beginning on page 28 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risk, must be considered in connection with a purchase of the Shares.

An application is being made to the SEC to register the Shares under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) (the "SRC").

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AND OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

No representation is made by PNB regarding the legality of an investment in the Shares under any legal, investment or similar laws or regulations. The contents of this Prospectus are not investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Shares. In making any investment decision regarding the Shares, prospective investors must rely on their own examinations of PNB and the terms of the share swap, including the merits and risks involved.

No person has been authorized to give any information or to make any representation other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by PNB. This Prospectus does not constitute an offer to sell or the solicitation of an offer to purchase any securities other than the Shares or an offer to sell or the solicitation of an offer to purchase such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale of the Shares offered hereby shall, under any circumstances, create any implication that there has been no change in the affairs of PNB since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

Presentation of Financial Information

PNB's financial statements are reported in Pesos and are prepared based on its accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("PFRS") issued by the Financial Reporting Standards Council of the Philippines.

The financial information for the year ended 31 December 2012, included in this Prospectus, represents the consolidated accounts of PNB and its subsidiaries. The financial information of PNB as of and for the period ended 31 March 2013 represent the accounts of PNB as the Merged Bank. Unless otherwise stated, all financial information relating to PNB contained herein is stated in accordance with PFRS.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

PNB's fiscal year begins on 1 January and ends on 31 December of each year. SGV & Co. has audited and rendered an unqualified report on PNB's financial statements as of and for the years ended 31 December 2012, 31 December 2011, 31December 2010 and for the quarter ended 31 March 2013.

Forward-Looking Statements

This Prospectus contains forward-looking statements that are by their nature subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors that may cause PNB's actual results, performance or achievements to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding PNB's present and future business strategies and the environment in which PNB will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- PNB's ability to successfully implement its strategies;

- PNB's ability to anticipate and respond to market trends;

- PNB's ability to successfully manage its growth;

- the condition of and changes in, the Philippine, Asian or global economies;
- any future political instability in the Philippines;
- PNB's ability to secure additional financing;
- Changes in interest rates, inflation rates and the value of the Peso against the U.S. dollar and other currencies;
- Changes in laws, rules and regulations, including tax laws and regulations and licensing requirements, in the Philippines; and
- Competition in the Philippine banking industry.

Additional factors that could cause PNB's actual results, performance or achievements to differ materially from forward-looking statements include, but are not limited to, those disclosed under "Risk Factors" and elsewhere in this Prospectus. These forward-looking statements speak only as of the date of this Prospectus.

This Prospectus includes statements regarding PNB's expectations and projections for future operating performance and business prospects. The words "believe", "plan", "expect", "anticipate", "estimate", "project", "intend" and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in the Prospectus as to the opinions, beliefs and intentions of PNB accurately reflect in all material respects the opinions, beliefs and intentions of its management as to such matters as of the date of this Prospectus, although PNB gives no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from PNB's expectations. All subsequent written and oral forwarding-looking statements attributable to PNB or persons acting on PNB's behalf are expressly qualified in their entirety by the above cautionary statements.

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GLOSSARY

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

ABC/ALLIED BANK	Allied Banking Corporation
AFS	available for-sale
AMLC	Anti-Money Laundering Council
BAP	Bankers Association of the Philippines
BASEL III	"Basel III" is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source improve risk management and governance and strengthen banks' transparency and disclosures.
BIR	Bureau of Internal Revenue
Board	Board of Directors of PNB
BSP	Bangko Sentral ng Pilipinas
Corporation Code	The Corporation Code of the Philippines, Batas Pambansa Blg. 68
DOSRI	Directors, Officers, Stockholders and their related interest
FCDU	Foreign Currency Deposit Unit
FVPL	Fair value through profit or loss
General Banking Law	The Philippine General Banking Law of 2000, RA 8791

Government	The Government of the Republic of the Philippines
ING	ING Bank, N.V.
Issue Price	₱70.00 /share is the price at which the Shares are issued pursuant to the Plan of Merger
LTNCD	Long Term Negotiable Certificates of Deposit
Manual	BSP Manual of Regulations for Banks
MCO	Maximum Cumulative Outflow
Metro Manila	the metropolitan area compromising the cities of Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Pateros, Quezon, Valenzuela, Taguig, and San Juan, which comprise the National Capital Region and are commonly referred to as Metro Manila
New Central Bank Act	The New Central Bank Act, RA 7653
NPAs	Non-Performing Assets
NPLs	Non-Performing Loans
OBUs	Offshore Banking Units
Offer	the offer for sale of the Shares to the shareholders of Allied Bank
Other operating expenses	Total operating expenses excluding provision for impairment and credit losses
PAS	Philippine Accounting Standards
PCD	Philippine Central Depository
PCD Nominee	PCD Nominee Corporation, a corporation wholly-owned by the PDTC

PDEx	Philippine Dealing and Exchange Commission
PDS	the Philippine Dealing System
PDTC	the Philippine Depository and Trust Corporation, the central securities depository of, among others, securities listed and traded on the PSE
Pesos or P or ₱	the lawful currency of the Philippines
PFRS	Philippine Financial Reporting Standards
Philippines	Republic of the Philippines
PNB or the "Bank" or "Merged Bank"	Philippine National Bank
PSE	Philippine Stock Exchange, Inc.
R.A.	Republic Act
SEC	Securities and Exchange Commission
UBS	UBS Investments Philippines, Inc.

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and its subject to, the more detailed information presented in this Prospectus, including PNB's financial statements and related notes included elsewhere in this Prospectus. Capitalized terms not defined in this summary are defined in the Glossary of Terms, Risk Factors, Business or elsewhere in this Prospectus.

Overview

Philippine National Bank (PNB or the "Bank"), the country's first universal bank, is the fourth largest private local commercial bank in terms of assets based on PNB's published Statement of Condition as of March 31, 2013. The Bank was established as a government-owned banking institution on July 22, 1916. As an instrument of economic development, the Bank led the industry through the years with its agricultural modernization program and trade finance support for the country's agricultural exports, pioneering efforts in the Overseas Filipino Workers (OFW) remittance business, as well as the introduction of many innovations such as Bank on Wheels, computerized banking, ATM banking, mobile money changing, domestic traveler's checks, and electronic filing and payment system for large taxpayers. PNB has the widest overseas office network and one of the largest domestic branch networks among local banks.

PNB concluded its 5-year Rehabilitation Plan as approved by the Bangko Sentral ng Pilipinas (BSP) in May 2007. The Bank also settled its ₱6.1 billion loan with PDIC in June 2007, more than four (4) years ahead of the loan's due date. The loan repayment was a clear indication of the Bank's renewed financial health.

In August 2007, PNB completed its Tier 1 Follow-On Equity Offering when it raised approximately ₱5.0 billion in Tier 1 Capital. Together with the sale of 89 million primary shares, 71.8 million secondary shares owned by the Government, through the PDIC and Department of Finance (DOF), were sold to the public, paving the way for a complete exit of the Government from PNB.

Merger Developments

On April 30, 2008, the respective Board of Directors of PNB and Allied Banking Corporation (ABC) passed resolutions approving the plan to merge the two banks. The plan of merger was subsequently approved on June 24, 2008 by the affirmative vote of PNB and ABC's respective shareholders representing at least two-thirds of the outstanding capital stock of each bank. The banks submitted the Plan of Merger to the BSP on July 30, 2008.

In December 2008, the merger, which was expected to have been completed by the end of 2008, encountered delays due to the requirement of ABC to divest its 27.78%

equity share in Oceanic Bank, a commercial bank based in California, USA, in compliance with US banking regulations.

PNB and ABC's respective Boards of Directors passed a resolution in October 2011 approving the execution of a Voting Trust Agreement among PNB, Oceanic Holding (BVI) Ltd. and Mr. Walter Mix III, the nominated trustee. The agreement placed all shares of the holding company that directly owned Oceanic Bank in a trust to be sold to third parties. ABC owned 27.78% of Oceanic Holding (BVI) Ltd. which in turn owned Oceanic Bank Holding, Inc., the parent company of Oceanic Bank in San Francisco, California, U.S.A. PNB, as successor-in-interest of Oceanic Bank upon merger, assumed all rights and responsibilities under the Agreement. The US Federal Reserve Board subsequently approved the Voting Trust Agreement in order to facilitate the merger of PNB and ABC in a manner that addressed US regulatory concerns.

On March 6, 2012, PNB and ABC separately held Special Stockholders' Meetings approving amended terms in the Plan of Merger of the two banks. In order to secure all necessary approvals from the regulators, the banks submitted the amended Plan of Merger to the BSP and the PDIC on March 26, 2012 and to the SEC on April 12, 2012.

On March 27, 2012, the trustee of the shareholders of Oceanic Holding (BVI) Ltd., entered into a definitive agreement with FNB Bancorp (FNBG), the parent company of First National Bank of North California, whereby the former agreed to sell to FNBG all of the outstanding stocks of Oceanic Bank Holding, Inc., the parent company of Oceanic Bank.

On July 25, 2012, the PDIC granted its consent to the proposed merger of PNB and ABC, with PNB as the surviving entity, pursuant to Sec. 21(c) of R.A. 3591, as amended, (the "PDIC Charter"), subject to certain conditions. This was followed by the BSP's approval of the Plan and Articles of Merger on August 13, 2012, subject also to certain conditions.

On January 17, 2013, the SEC approved the Plan and Articles of Merger.

Having already gained all necessary regulatory approvals to proceed with the Merger, the Board of Directors of PNB and ABC, in separate Special Board Meetings held on January 22, 2013 and January 23, 2013, respectively, set the Effective Date of the Merger on February 9, 2013. Thus, on February 9, 2013, PNB and ABC merged into one bank.

As the Merged Bank, PNB is now the fourth largest private commercial bank in terms of assets based on the Bank's published Statement of Condition as of March 31, 2013.

Business Description

PNB, as the Merged Bank, through its Head Office and 654 Domestic Branches and offices and 89 Overseas Branches and Representative Offices, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB'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 faces competition from both domestic and foreign banks, in part as a result of the liberalization of the banking industry by the National Government which allowed the entry of more foreign banks. The presence of these foreign banks has also increased competition in the corporate market, resulting in more domestic banks focusing on SMEs.

As of March 31, 2012, the Bank's ranking and market share in terms of key performance areas among local private commercial banks were as follows:

Performance Area	Market Share	Rank
Total Assets	7.0%	4
Loans and Receivables[1/]	6.4%	4
Total Deposits	7.3%	4
Capital	8.6%	4

1/ Excluding Interbank Call Loans

Revenue Derived from Foreign Operations

PNB and its subsidiaries (hereinafter referred to as 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 the past three (3) years and for the first quarter of 2013:

	March 2013	2012	2011	2010
Philippines	96%	93%	92%	91%
Asia (excluding the Philippines)/ Middle East	2%	3%	4%	4%
Canada and USA	2%	3%	3%	4%
United Kingdom & Other European Union Countries		1%	1%	1%
Total	100%	100%	100%	100%

New Products and Services

The Bank has launched the following products and services in 2012 and up to April 2013:

- The PNB Debit Mastercard and GFC Prepaid Card
- Cardless ATM Facility
- New PNB Phone Banking
- PNB Visa
- PNB-Allied Bank Mastercard in Control
- Pinnacle Club
- PNB High Dividend Fund
- Phone Remittance
- Fastcash ATM Account

Key Business Activities

PNB provides a full range of banking and other financial services to large corporate, middle market, SME and retail customers, including OFWs, as well as to the Government, Government agencies, LGUs and Government-owned and -controlled corporations in the Philippines.

PNB's banking activities are undertaken through different groups within PNB, including the Institutional Banking, Retail Banking, Consumer Finance, Treasury, Global Filipino Banking and Trust Banking Group.

Institutional Banking Group

PNB's Institutional Banking Group ("IBG") is responsible for credit relationships with large corporate, middle-market and SME customers as well as with Government and Government-related agencies and financial institutions. It provides a range of traditional banking products and services including term loans, revolving credit lines, foreign currency loans and trade finance. Cash management solutions such as disbursement, collection and liquidity management facilities are also offered.

Retail Banking Group

RBG principally focuses on retail deposit products (i.e. current accounts, savings accounts and high cost accounts) and services. While the focal point is the generation of lower cost funding for PNB's operations, the RBG also concentrates on the cross-selling of consumer finance products, trust products, fixed income products, credit cards and bancassurance products to existing customers and referred customers by transforming its domestic branch distribution channels into a sales-focused organization. PNB's bancassurance product, which provides PNB with additional fee income, is a BSP-approved service allowing banks such as PNB to sell life and non-life insurance products to the bank's client base and through their branch network.

PNB offers its non-life insurance and life-insurance products through its partners PNB General Insurers Co., Inc. ("PNB Gen"), a wholly-owned subsidiary, and PNB Life Insurance, Inc., respectively.

Consumer Finance Group

PNB's consumer financing business, which includes home mortgage loans, motor vehicle loans, multi-purpose loans and credit cards, is seen to be a major contributor to its revenue stream in the medium term. Strategic initiatives have been undertaken to put in place the proper infrastructure to support the Consumer Finance Group's ("CFG") business growth.

Treasury Group

The Treasury Group primarily manages the liquidity and regulatory reserves of PNB and risk positions on interest rates and foreign exchange borne out from the daily inherent operations in deposit taking and lending and from proprietary trading.

Global Filipino Banking Group

PNB is one of the leading providers of OFW remittance services in the market. PNB derives income from OFW remittances principally through fees and foreign exchange margin. As of December 31, 2012, PNB had the largest overseas network among Philippine banks with 78 branches, representative offices, remittance centers and subsidiaries in the United States, Canada, Europe, the Middle East and Asia. PNB also maintains correspondent relationships with 844 banks and financial institutions worldwide.

Trust Banking Group

PNB provides a wide range of personal and corporate trust and fiduciary banking services and products. Personal trust products and services for customers include living trust accounts, educational trusts, estate planning, guardianship, insurance trusts 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 receiving bank.

COMPETITIVE STRENGTHS

PNB considers the following to be its principal competitive strengths relative to the banking sector:

Well-positioned franchises in the robust Philippine banking sector

PNB believes that it is well-positioned in the robust Philippine banking sector. The Philippines has one of the lowest banking penetrations in Asia, leaving significant headroom for growth. According to the Economist Intelligence Unit, loan growth is expected to be strong at 13.5% on average over the next five years driven by strong domestic consumption and favorable demographics. The banking sector has also stabilized over the years, with the NPL ratio steadily declining to 1.9% as of December 2012, from 15.0% in 2002 according to data from the BSP.

The Bank's scale, reach, business mix, product offerings and brand recognition has made it among the leading financial institutions in the Philippines. According to the Bank's published SEC Form 17-Q report, as of 31 March 2013, PNB is the Philippines' fourth largest private commercial bank in terms of total assets, deposits, net loans and receivables.

Extensive and strategically located distribution network

The Bank believes it has one of the most extensive branch networks among its competitors in the Philippines. As of 31 March 2013, the Bank had 654 domestic branches and offices and 840 ATMs. The Bank's branches and ATMs are strategically located to maximize market potential and cover areas where competitors are less present, making financial services accessible to untapped customers and investment opportunities. The Bank's extensive distribution network allows for a strong deposit gathering capability and the ability to sell and distribute fee-generating product lines such as bancassurance, trust, fixed-income securities and credit cards. According to BSP data, the 654 domestic branches and offices of the Bank comprised approximately13% of the total number of branches of all private commercial and universal banks in the Philippines as of 31 March 2013. The 840ATMs of the Bank represented about 8.1% of the total number of Bancnet ATMs of commercial and universal banks.

Industry-leading OFW remittance business

As of March 31, 2013, the Bank's OFW remittance business accounted for approximately 22.3% market share by remittance volume, based on data from the BSP, making it one of the largest in the Philippines. The Bank's large-scale remittance business is supported by the Bank's extensive overseas network of 89 branches, representative offices and remittance centers across 12 countries in North America, Europe, the Middle East and Asia. As of 31 March 2013, the Bank also maintained correspondent relationships with 844 banks and financial institutions worldwide.

Diversified customer base

The Bank provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle-market, SME and retail customers, with the Bank having the distinction of being one of only five authorized Government depository banks in the Philippines. As of 31 March 2013, the Bank's receivables from customers were well-diversified across the large corporate, Government, SME and retail segments. The Bank believes that with the merger, additional customers contributed by ABC will strengthen the Bank's ability to withstand periods of volatile economic markets as compared to many of its peers.

Solid capitalization, improving asset quality and stable financial performance

The Bank believes its capital position is strong, with a consolidated Tier 1 ratio of 16.5% and consolidated CAR of 21.7% as of 31 March 2013 as reported to the BSP. Meanwhile, ABC maintained a strong capital position prior to its merger with the Bank, with a consolidated CAR of 21.0% for the year ended 31 December 2012 as reported to the BSP, higher than the BSP minimum required CAR of 10%. The Bank's strong capital position gives it the flexibility to expand its business, invest in new products and services, information technology and other infrastructure required for the execution of its growth strategy. Moreover, the Bank has been committed to prudent credit approval and risk management processes, which have resulted in improving asset quality. As of 31 March 2013, the Bank recorded an NPL ratio of 1.3%, a net NPA ratio of 4.0% and an NPL coverage ratio of 63.0%.

The Bank believes that its asset quality would remain at a healthy level subsequent to its recent merger with ABC with the latter having similarly maintained strong asset quality.

Moreover, the Bank believes it will benefit from ABC's stable financial performance in recent years. ABC had continuously maintained its position as among the 10 largest private Philippine universal banks in terms of total assets, loan portfolio, deposits and net worth, according to data from the BSP.

Synergies from its strong shareholder group

As a member of the Tan Companies, PNB believes that it will continue to benefit from being part of one of the largest and most diverse conglomerates in the Philippines, with interests ranging from beverages, airlines, tobacco, property development, education and others. PNB believes that it has been able to achieve significant synergies with the Tan Companies, such as partnering with Philippine Airlines to introduce one of the most popular mileage rewards credit cards in the Philippine market, providing collection facilities through its nationwide branches for sellers of PMFTC's products and for other Tan Companies, streamlining loan applications for end-buyers of Eton, and facilitating guarantees for ticketing agents of Philippine Airlines.

BUSINESS STRATEGIES

PNB aims to fortify its position as one of the leading banks in the Philippines, delivering strong profitability supported by a solid balance sheet. PNB will pursue the following major strategies to achieve its business objectives:

1. Improve revenue mix

   As part of the strategy to improve its profitability and at the same time minimize dependence on any specific revenue source, the Bank will take steps to modify its revenue mix towards a more stable stream of income. Along this line, The Bank will continue to determine the proper allocation of the use of funds between loans and investments to ensure a more stable level of accrued interest income and higher yields from loans versus the volatile movements in trading gains/losses from investment securities held for trading. Likewise, the Bank intends to further leverage on its strong franchise and increase fee-based income by intensifying its cross-selling efforts to its existing customers, including its OFWs customers. The Bank will also review its fee structure and align bank fees and service charges with market rates to remain competitive. With its bancassurance license from the BSP, the Bank plans to intensify its efforts in the marketing of bancassurance products.

2. Shift loan portfolio mix in favor of SME and consumer segments

   The Bank's lending strategy will entail a shift in marketing focus from large institutional accounts to SMEs and individuals. This shift in lending strategy by increasing the number of smaller accounts is intended to help the Bank in achieving higher lending margins as smaller accounts are less sensitive to changes in interest rates. The Bank intends to leverage on its extensive customer base of OFWs to expand its consumer lending business. The Bank's subsidiary, Allied Savings Bank will play a pivotal role in strengthening the bank's foothold on the retail and consumer segment.

3. Strengthen leadership in the global Filipino Market

   The Bank intends to further increase its share in the global Filipino market by going beyond merely providing them with remittance services to offering them a more diverse menu of financial services. The Bank will continue to enhance its products aimed at delivering optimum services, particularly by introducing electronic-remittance channels. In addition to its large global distribution network, the Bank will keep on partnering with companies that are considered leaders in their home markets to reinforce its overseas presence. The sustained focus on service quality, continued product innovation and marketing initiatives are expected to result in increased remittance volume and/or increased foreign currency business.

4. Rationalize cost of funds

The Bank will leverage on the strength of its nationwide branch network to generate low-cost deposits from its existing and growing customer base. In support of the expansion in total assets, the Bank will also keep an acceptable level of high-cost deposits to complement the low-cost deposit base.

5. Maximize synergies from the merger

The merger brings together a combined complementary client base ranging from large corporations, local government units, government-owned and controlled corporations, overseas Filipino workers and the Chinese-Filipino community to the provincial market. The merged bank will also be able to leverage and harness on the wide network of its major shareholder, the Lucio Tan Group, one of the largest conglomerates in the Philippines. As the merged bank , PNB will have a better platform to offer a wide range of personal and corporate banking services and products, and become a leading player in its chosen markets.

The merger is expected to create substantial revenue and cost synergies. Revenues should be enhanced as a result of new customers, increased business from existing customers, low funding cost from improved risk profile and greater opportunities for cross-selling bancassurance, trust, credit card and other products to a larger customer base via a wider distribution network. In addition, the merger will result in cost efficiency improvements through branch re-engineering, economies of scale, systems integration, realignment of front offices and optimization of back office processing and support functions.

6. Accelerate ROPA disposition

Through its Special Asset Management Group (SAMG), the Bank will aggressively dispose of foreclosed assets as well as maximize recoveries from asset sales and income potential of acquired assets. Under the Bank's three-year business plan, SAMG will focus its efforts on the following: a) pursue implementation of development plans for selected ROPAS e.g., portfolio sale, joint-venture with developers, sale of small and medium ROPAs; b) collection of CARP accounts; c) strong marketing initiatives; d) efficient account management of SCR accounts; and e) more effective and efficient lease management practices.

Risks of Investing

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Shares. These risks include:

- Risks Relating to PNB's Business;

- Risks Relating to the Philippines;

- Risks Relating to the Shares; and
- Risks Relating to the Presentation of Information in this Prospectus.

The Bank is subject to a number of risks, the realization of which could have a material adverse effect on the Bank's business, financial condition and results of operations and cause the market price of the Shares to decline. For example, the merger between PNB and Allied Bank may not result in the expected synergies contemplated by PNB, PNB and Allied Bank may be subject to tax liabilities in relation to their merger, the Bank has faced and may continue to face significant levels of non-performing loans. The Bank is also subject to risks related to, among other things, the size, quality and concentration of its loan and investment portfolios, its provisioning policies, its ability to recover collateral, its exposure to the real estate industry, its reliance on gains from treasury operations and its ability to successfully monitor and manage certain decentralized business and risk management functions across its banking network. In addition, the Bank operates in a competitive and highly regulated industry and thus may be limited in its ability to expand and grow its customer base. As a Philippine bank, the Bank's results of operations and financial condition may also be adversely affected by political and economic developments in the Philippines. Investors may also face risks regarding liquidity of the Shares and fluctuations in the market price of the Shares.

Corporate Information

PNB is a Philippine corporation with registered office and principal executive offices located at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City. PNB's telephone number is (632) 8916040 to 71 or 5263131 while its fax number is (632) 8340780. Its corporate website is www.pnb.com.ph. The information on PNB's website is not incorporated by reference into and does not constitute part of this Prospectus.

SUMMARY OF THE OFFER

Issuer……………………………………	Philippine National Bank, a corporation organized under the Philippine law. The trading symbol is PNB.
The Offer……………………………….	Primary Offer of 423,962,500 Common Shares to be issued by PNB to all shareholders of Allied Banking Corporation at the Issue Price of P70.00 per share using the Exchange Ratio of 130 PNB common shares for each Allied Bank common share and 22.763 PNB common shares for each Allied Bank preferred share pursuant to the Plan of Merger.
Issue Price…………………………….	P70.00 per Share
Use of Proceeds………………………..	See “Use of Proceeds” for details of how the total net proceeds are expected to be applied.
Listing and Trading……………………	The Shares are expected to be listed on the PSE under the Symbol and company alias PNB on or about 15 September 2013 or at least fifteen days after the submission of the Listing Application with the PSE. Trading of the shares is expected to commence upon receipt of the notice of approval from the PSE.
Dividends………………………………	PNB is authorized to declare dividends. A cash dividend declaration requires approval from the Board. A stock dividend declaration requires the further approval of shareholders representing not less than two-thirds of PNB’s outstanding capital stock. Dividends may be declared only from unrestricted retained earnings and is subject to the approval of the BSP. PNB cannot

	provide assurance that it will pay any dividends in the future. See “Dividends Policy”.
Taxation …………………….	Documentary Stamp Tax for the primary issue of the Shares at the rate of P1.00 for every P200.00 of the par value shall be for the account of the Bank.
Expected Timetable………………….	The Timetable of the Offer is expected to be as follows: Filing of Prospectus and Registration Statement – 8 August 2013 Filing of Listing Application with the PSE – 30 August 2013 Listing Date and Commencement of trading on the PSE – approximately 15 September 2013 or at least 15 days from submission of the Listing Application with the PSE and receipt of the formal notice from the PSE The dates included above are subject to the approval of the PSE and the SEC, market and other conditions, and may be changed.
Risks of Investing……………………	Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Shares. Some of these risks are discussed in the section entitled “Risk factors” and include risks relating to PNB, risks relating to the Philippines, risks associated with the Shares and risks relating to certain statistical information in this Prospectus.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following tables set forth the selected financial information for PNB and should be read in conjunction with PNB's financial statements as audited by SGV & Co. for the years ending 31 December 2010 to 2012 and for the period ending 31 March 2012 and 2013, including the notes thereto, and the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Prospectus. The following data is qualified in its entirety by reference to all of that information.

SUMMARY CONSOLIDATED STATEMENTS OF INCOME OF PNB

	For the years ended December 31,			For the three months ended March 31	
	2010	**2011**	**2012**	**2012**	**2013**
(Amounts in ₱ millions)	**Audited**				
INTEREST INCOME ON					
Loans and receivables	6,973.3	7,521.5	7,451.4	1,944.3	2,914.1
Trading and investment securities	4,439.4	4,260.7	3,235.7	802.5	927.9
Deposit with banks and others	887.	659.3	659.3	193.6	250.1
Interbank loans receivable	31.0	30.7	14.2	3.4	7.0
	12,331.1	**12,472.2**	**11,360.6**	**2,943.8**	**4,099.0**
INTEREST EXPENSE ON					
Deposit liabilities	3,441.8	4,011.5	3,099.8	793.1	1,059.0
Bills payable and other borrowings	1,329.7	1,257.2	1,285.1	287.7	417.8
	4,771.6	**5,268.7**	**4,384.9**	**1,080.8**	**1,476.7**
NET INTEREST INCOME	**7,559.5**	**7,203.5**	**6,975.7**	**1,863.0**	**2,622.3**
Service fees and commission income	2,448.0	2,344.0	2,130.7	521.1	762.4
Service fees and commission expense	323.5	207.4	254.4	54.6	152.5
NET SERVICE FEES AND COMMISSION INCOME	**2,124.5**	**2,136.6**	**1,876.2**	**466.5**	**609.9**
OTHER INCOME					
Trading and investment securities gain - net	3,080.9	3,573.1	5,133.5	1,764.2	3,272.1
Premiums- net of reinsurance					371.2
Foreign exchange gains - net	906.8	1,216.3	1,405.1	414.6	40.8
Net gain on sale of exchange of assets	2,109.5	1,350.4	359.9	182.3	167.2
Gain on step- up acquisition					141.0
Miscellaneous	1,595.4	1,910.9	1,842.2	135.9	372.1.
TOTAL OPERATING INCOME	**17,376.7**	**17,390.8**	**17,592.6**	**4,826.5**	**7,596.5**
OPERATING EXPENSES					
Compensation and fringe benefits	3,384.0	3,815.2	3,720.9	929.6	1,342.3
Taxes and licenses	1,176.4	1,319.1	1,134.3	348.8	447.9
Provision for impairment, credit and other losses	2,399.8	1,552.4	933.7	359.0	180.0
Occupancy and equipment-related costs	915.8	1,015.4	1,004.3	230.6	274.1
Depreciation and amortization	837.6	656.4	713.2	211.2	296.5
Miscellaneous	3,706.7	3,397.2	4,133.8	1,271.7	1,554.2
TOTAL OPERATING EXPENSES	**12,420.2**	**11,755.7**	**11,640.2**	**3,350.9**	**4,095.0**
INCOME BEFORE INCOME TAX	**4,956.5**	**5,635.1**	**5,952.4**	**1,475.6**	**3,501.5**
PROVISION FOR INCOME TAX	**924.2**	**879.4**	**924.7**	**238.1**	**661.9**
NET INCOME	**4,032.3**	**4,755.7**	**5,027.7**	**1,237.5**	**2,839.6**
NET INCOME ATTRIBUTABLE TO :					
Equity Holders of PNB	3,565.7	4,669.4	4,651.8	1,235.4	2,827.4
Non-controlling Interest	466.6	86.3	375.9	2.1	12.2
	4,032.3	**4,755.7**	**5,027.7**	**1,237.5**	**2,839.6**

SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF PNB

	As of December 31			As of March 31
	2010	2011	2012	2013
(Amounts in ₱ millions)	**Audited**			
ASSETS				
Cash and other cash items	5,457.2	5,404.1	5,599.1	7,918.0
Due from Bangko Sentral ng Pilipinas	24,286.0	38,152.8	37,175.4	83,305.6
Due from other banks	5,141.5	6,424.0	4,042.8	15,016.8
Interbank loans receivable	12,692.0	17,097.6	11,498.8	8,276.0
Securities held under agreements to resell	6,800.0	18,300.0	18,300.0	20,000.0
Financial assets at fair value through profit or loss	15,980.6	6,875.7	4,023.1	9,789.4
Available-for-sale investments	34,531.3	52,323.8	66,997.4	101,627.6
Loans and receivables	110,315.5	126,249.0	144,707.5	241,360.9
Held-to-maturity investments	38,228.2			
Property and equipment:	16,631.9	16,564.5	16,503.7	22.970.7
Investments in a subsidiary and an associate	2,832.1	2,901.8	2,905.3	5.1
Investment properties	17,913.2	16,100.1	14,478.3	19,022.5
Deferred tax assets	1,829.4	1,775.8	1,780.7	1,089.5
Goodwill				16,017.5
Other assets	4,481.1	3,897.4	2,994.4	4,000.3
TOTAL ASSETS	**297,120.0**	**312,066.6**	**331,006.5**	**550,399.9**
LIABILITIES AND EQUITY				
Liabilities				
Deposit liabilities				
Demand	27,964.4	29,896.1	28,152.3	83,945.2
Savings	171,282.4	184,676.1	192,793.3	263,347.4
Time	27,189.1	22,961.7	19,908.8	47,319.3
	226,435.9	**237,533.9**	**240,854.4**	**394,611.9**
Financial Liabilities at fair value through profit or loss	6,574.6	6,650.2	6,479.8	10,304.3
Bills and acceptances payable	12,004.1	8,458.4	13,076.9	15,121.4
Accrued taxes, interest and other expenses	4,325.0	3,981.2	4,063.3	5,313.3
Subordinated debt	5,486.7	6,452.5	9,938.8	9,942.4
Other liabilities	13,922.1	14,016.0	16,846.4	28,616.9
TOTAL LIABILITIES	**268,748.4**	**277,092.2**	**291,259.6**	**463,910.2**
Equity				
Equity Attributable to Equity Holders of PNB:				
Capital Stock	26,489.8	26,489.8	26,489.8	43,448.3
Capital paid in excess of par value	2,037.3	2,037.3	2,037.3	26,499.9
Surplus reserves	552.0	560.2	569.9	715.6
Surplus (deficit)	-2,414.9	2,246.2	6,888.3	9,947.7
Revaluation increment on land and buildings	2,817.0	2,817.0	2,817.0	2,817.0
Remeasurement Losses on Retirement Plan				-1,920.4
Accumulated translation adjustment	-472.0	-451.7	-992.6	-918.8
Net unrealized gain (loss) on available-for-sale investments	-1,199.3	742.3	1,037.3	2,978.9
Equity in net unrealized gain on available-for-sale investment of an associate	6.0	6.8		
PNB shares held by a subsidiary	-4.7	-4.7	-4.7	-4.7
	27,811.2	34,443.2	38,842.2	83,563.5
Non-controlling interest	560.4	531.2	904.7	2,926.2
Total Equity	**28,371.6**	**34,974.4**	**39,746.9**	**86,489.7**
TOTAL LIABILITES AND EQUITY	**297,120.0**	**312,066.6**	**331,006.5**	**550,399.9**

USE OF PROCEEDS

There are no cash proceeds from the offering. As previously approved by the respective Board of Directors and shareholders of PNB and Allied Bank, the accounting treatment for the Merger will be in accordance with PFRS 3. The Merger will be accounted for under the Purchase Method, under which the following main principles will be followed:

- assets and liabilities, including unrecorded intangible assets and contingent liabilities of the "acquiree" will be taken up at fair value as of the date of the Merger in the books of the "acquiror"
- prior years' financial statements will not be restated and the income statement will only incorporate the results of the "acquiree" from the date of merger
- equity of the "acquiror" is increased by the amount of the acquisition cost, equivalent to the number of new shares of the "acquiror" to be issued multiplied by the issue price
- difference between the acquisition cost and fair value of the net assets of the "acquiree" as of the date of the Merger will be recorded as goodwill.

There are no expenses which will be deducted or paid out of the proceeds of the offering.

The Merger of PNB and Allied Bank has, however, elevated PNB as the fourth largest private commercial bank in terms of assets based on the Bank's published Statement of Condition as of March 31, 2013. The infusion of Allied Bank's assets into PNB is expected to improve its financial standing.

RISK FACTORS

Prior to making an investment decision, the prospective investors should carefully consider the risks described below in addition to the other information set forth in this Prospectus including the Bank's financial statements and notes relating thereto included herein.

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide for future performance.

This risk disclosure does not purport to disclose all the risks and other significant aspects on investing in these securities. Any investor should undertake his or her own research and study on the trading of securities before commencing any trading activity. He may request information on the securities and the issuer thereof from the SEC which are available to the public.

RISKS RELATING TO PNB

PNB operates in a highly competitive environment, which could limit its ability to maintain or increase its market share and maintain or increase its profitability.

PNB competes against both local banks and branches of foreign banks that offer similar financial products and services. These include competitors which, in some instances, have greater financial and other capital resources, a greater market share, or greater name recognition in certain areas than PNB.

In the future, competition in the industry may further intensify. Continued expansion of Philippine banks can saturate markets that PNB intends to serves. Continued consolidation in the banking sector, alliance between domestic banks and foreign banks will create stronger institutions which are better positioned to compete against PNB. Entry of new players in the industry can also increase competition as they seek to gain market share.

There can be no assurance that PNB will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for PNB to increase the size of its loan portfolio and deposit base, sustain or increase its margins, and could have a material adverse effect on results of operations and financial condition.

PNB's business is closely monitored and regulated by the Government through policies that may significantly impact its operations and profitability.

PNB is regulated principally by the BSP through the regular and special examination and review of reports that all Philippines banks are required to submit. PNB is also subject to banking, corporate and other laws in effect in the Philippines. The regulatory and legal framework governing PNB differs in certain material respects from that in effect in other jurisdictions and may continue to change as the Philippine economy and commercial and financial markets evolve.

For example, the Government has imposed an agrarian reform and agriculture lending policy that requires Philippine banks to grant loans to agricultural sectors of the country and agrarian beneficiaries. Banks that fail to comply by falling below the specified level of loans granted to these sectors may be fined by the Government. There is no absolute guarantee that these fines will not be significantly changed by the Government, which may have a negative impact on the Bank's financial performance in the event of non-compliance with the regulation. Another example is the BSP's policy of prohibiting banks from having a financial exposure to any individual, entity or group of connected persons in excess of 25 per cent of its net worth, except when the transactions involve Government related entities or guaranteed by the Government, among others.

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines. PNB has embarked on initiatives in order to meet the requirements under Basel III. It is anticipated that the adoption of Basel III may result in the decline of capital ratios of banks in the Philippines, including PNB's. PNB may also have to comply with stricter regulations and guidelines issued by other regulatory authorities in the Philippines, such as the Bureau of Internal Revenue ("BIR"), the Anti-Money Laundering Council (the "AMLC") and international bodies, such as the Financial Action Task Force. If additional rules or regulations are introduced, PNB may incur substantial compliance and monitoring costs, and if PNB is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties, face disruptions to its operations and face reputational damage, which could materially and adversely affect PNB's business, financial condition and results of operations.

PNB is exposed to credit, market, interest rate, foreign exchange, liquidity, operating, and other risks which may have an impact on its future financial performance and operations.

The inability of PNB to manage these various risks could have an adverse impact on its business, operations and financial performance. PNB's interest income and earnings depend on its ability to accurately gauge the credit worthiness of its borrowers, provide adequate allowance for credit losses and manage migrations in credit quality and risk concentration of its portfolio. PNB's existing and prospective lending policies, processes and controls may not adequately mitigate the risk of loan loss provisions and write-offs. The success of the Bank's treasury and trading strategies and operations depend upon its capacity to correctly identify and execute mark-to- market changes in the value of financial instruments caused by fluctuations in market value, interest rates and foreign exchange rates, among other factors. In the event that PNB's estimates differ significantly from actual results and critical assumptions prove inaccurate, it could incur losses that are higher than expected. Such losses may result in liquidity concerns which hamper the Bank's ability to settle obligations as they fall due, resulting in increased costs, loss of reputation, and other detrimental effects that can affect the Bank's performance and standing. Lastly, the Bank's operating controls, policies and processes may not be adequate to prevent losses from transaction failures, human error, fraud, breakdown of its IT systems, and other such events that have a negative impact on its operations and financial results.

Lending carries the risk of default by borrowers and PNB may face increasing levels of NPLs and provisions for impairment and credit losses on loans.

Any lending activity is exposed to credit risk arising from the risk of default by borrowers. PNB's results of operations may be negatively affected by the level of its NPLs. A number of factors affect PNB's ability to control and reduce its NPLs, such as volatile economic conditions in the Philippines, which may adversely affect many of PNB's customers, and may cause uncertainty regarding their ability to fulfill their loan obligations, and in effect increase PNB's exposure to credit risk. In addition, PNB is seeking to grow its business, particularly its earnings asset base, which would likely entail extending more loans to customers. While PNB believes that it has more than adequate loan provisions, these and other factors could result in an increased number of NPLs in the future and may require PNB to book additional provisions for impairment and credit losses on loans. While PNB regularly monitors its NPL levels and has strict credit processes in place, there can be no assurance that PNB will be successful in reducing its NPL levels or that the percentage of NPLs that PNB will be able to recover will be similar to PNB's historical recovery rates or that the overall quality of its loan portfolio will not deteriorate in the future. If PNB is not able to control and reduce its NPLs or recover expected amounts from NPLs, if the quality of collateral is lower than estimated or if there is a significant increase in its provisions for loan losses, PNB's operating costs, business, financial condition, results of operations and capital adequacy could be adversely affected.

PNB may experience significant losses if it is unable to fully recover the assessed value of collateral when its borrowers default on their obligations.

Most of PNB's secured loans receivable are collateralized by real estate properties. These collaterals plus PNB's holdings in real estate and other properties acquired ("ROPA") give the Bank a considerable amount of exposure in the Philippine property market. The liquidation value of the collateral, the maximum amount that PNB will most likely get in the event of a sale of the property less the expenses incurred in such a sale held by PNB, may be below the value recorded at the time of the release of the loan. PNB liquidates part of its ROPA and other collateral through public auctions and negotiated transactions at ongoing market prices, which are heavily influenced by buyers. Property prices in the Philippines have generally been volatile and the property market has been highly cyclical. There is no certainty that

PNB's loans can be sufficiently covered by the realized value of the attached collateral. The market value of real estate held as collateral can be significantly affected by events such as economic downturns. In some instances, the recorded value of the collateral may be out of date and not accurately mirror their current market value. There are also some circumstances wherein there are no buyers for a particular type of asset held as collateral and it may be difficult to liquidate such collateral at acceptable prices. Any possible decrease in the value of the collateral on PNB's loans, including future collateral received by PNB, would translate to insufficient provisions for credit losses that consequently forces PNB to increase such provisions. In the event that loans become non-performing, there is no certainty that the collateral securing any kind of loan will fully shield PNB from incurring partial or total losses. Any additional amount in PNB's provisions for credit losses would significantly impact its operational and financial performance as well as its capital adequacy ratio.

In addition, PNB may encounter problems and delays in the process of recovering value and liquidating collateral or collecting on any guarantee due to the inefficient enforcement of obligations by the Philippine legal system. Banks in the Philippines are required to undergo a mandated process and follow the steps identified by Philippine law when foreclosing on collateral or enforcing guarantees. This process is governed by administrative and bankruptcy law requirements that may make it more difficult to deal with compared to other regions and jurisdictions. The time delay caused by the bureaucratic process may last several years during which both the market value and physical condition of the collateral may significantly deteriorate, particularly inventory of goods or accounts receivables. In addition, collateral of this nature may not be insured. Taken together, these factors expose PNB to certain legal liabilities while the collateral is in PNB's possession. These factors may also substantially lower PNB's ability to unlock the value of its collateral and therefore reduce the comfort in taking security in exchange for granting loans. In some instances, PNB will need to spend on the maintenance of properties held as collateral in order to prevent or slow down their deterioration. The process of liquidating assets and properties held as collateral may also require PNB to pay legal fees and taxes.

PNB's trading activities are subject to volatility.

PNB engages in trading activities, primarily maintaining proprietary trading positions in Philippine and foreign government securities and some corporate debt securities. In recent years, PNB's gains from treasury operations have contributed significantly to PNB's operating income. PNB's trading gains are inherently volatile as trading securities and currencies are subject to economic, political and other conditions that may fluctuate from time to time. There can be no assurance that, in the future, PNB will be able to realize an amount of trading gains that is similar to the gains it realized historically, that it will not incur a loss from such trading or that it will not hold on to its trading and investment securities to realize interest income, any or all of which could have a material adverse effect on PNB's future net income. Risks arising both from its trading and investment strategy and general market volatility, which are beyond its control, could expose PNB to potential losses and may materially and adversely affect its business, financial condition and results of operations.

PNB is subject to interest rate risk and foreign exchange risk.

PNB realizes income from the margin between interest-earning assets and interest paid on interest-bearing liabilities. The business of PNB is subject to fluctuations in market interest rates as a result of mismatches in the re-pricing of assets and liabilities. These interest rate fluctuations are neither predictable nor controllable and may have a material adverse impact on the operations and financial condition of PNB. In a rising interest rate environment, if PNB is not able to pass along higher interest costs to its customers, it may negatively affect PNB's profitability. If such increased costs are passed along to customers, such increased rates may make loans less attractive to potential customers and result in a reduction in customer volume and hence operating revenues. In a decreasing interest rate environment, potential competitors may find it easier to enter the markets in which PNB operates and to benefit from wider spreads. As a result, fluctuations in interest rates could have an adverse effect on PNB's margins and volumes and in turn adversely affect PNB's business, financial condition and results of operations.

As a financial organization, PNB is exposed to foreign exchange risk. Movements in foreign exchange rates could adversely affect PNB's business, financial condition and results of operations. The foreign exchange transactions of Philippine banks are subject to stringent BSP regulation. Under BSP guidelines, PNB is required to provide 100.0% foreign asset cover for all foreign currency liabilities in its Foreign Currency Deposit Unit ("FCDU") books. The decline in the value of the peso against foreign currencies, in particular, the U.S. dollar may affect the ability of PNB's customers or the Government to service debt obligations denominated in foreign currencies and, consequently, increase NPLs. Conversely, increases in the value of the peso can depress the export market which can negatively affect the ability of certain PNB customers to repay their debt obligations or may reduce credit quality or demand. There can be no assurance that the peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an adverse effect on PNB.

PNB is exposed to the risk that fraud and other misconduct could be committed by employees or outsiders.

Banks have large amounts of cash flowing through their systems hence, reputation and client trust is integral to a bank's business. Incidents of fraud and other misconduct done by bank employees or third parties may damage a bank's reputation and could have severe repercussions to its business, profitability, financial standing and prospects. Moreover, these incidents could lead to administrative or regulatory sanctions by the BSP or other Government agencies in the form of suspensions or limitations to PNB's banking and business activities. Despite the fact that PNB has internal control procedures to prevent fraudulent activities, there can be no guarantee that PNB will be able to avoid and prevent incidents of fraud.

PNB's ability to retain and develop its employees and attract capable personnel has an effect on its current business, expansion plans, and future business performance.

The success of PNB, like any other company, rests on its management and employees. In the event that Bank is unable to retain its existing key officers or develop capable replacements for these individuals, the Bank's operations and business performance will suffer. The demand for competent and experienced bank personnel is increasing, not only from other financial institutions in the country but also from institutions outside the Philippines. The Bank's expansion plans will require it to attract and recruit new managers and employees and given the increasing competition, there is no assurance that the Bank will be able to employ such individuals or employ these at salary and compensation arrangements that are favorable to the Bank.

PNB's risk assessment and monitoring methods varies from those of its more developed and established counterparts.

PNB's risk assessment and monitoring methodologies may be different from other banks and financial institutions.

PNB's pertinent risk data such as the credit history and loan exposure of proposed borrowers may be incomplete or obsolete. Consequently, the effectiveness of PNB's risk management may not be at par with other banks. If PNB is unable to attain the necessary expertise and systems similar to its peers, PNB's ability to manage the risks inherent in its business, to expand its base of operations, to fortify its financial position and to enhance its profitability may be adversely affected.

PNB may fail to upgrade or effectively operate its information technology systems.

PNB's businesses are heavily dependent on the ability to timely and accurately collect and process a large amount of financial and other information across numerous and diverse markets and products at its various branches, at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of PNB's financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting PNB's various branches and offices is critical to its business and its ability to compete effectively. PNB has centralized the database in respect of its domestic business through the adoption of a core banking system that provides the capability of online real-time transaction processing and accessible in various electronic channels, including ATMs, internet banking, and mobile banking. Any failure in PNB's systems or to implement new systems, particularly for retail products and banking transactions could have a negative effect on its business, financial condition and results of operations.

PNB's failure to manage risks associated with its information and technology systems could adversely affect its business.

PNB is subject to risks relating to its information and technology systems and processes. The hardware and software used by PNB in its information technology are vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers, ATM operators and telephone companies. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in PNB. These may, in turn, adversely affect PNB's business, financial condition and results of operations.

PNB also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by PNB's increased use of the internet. Computer break-ins and security breaches would affect the security of information stored in and transmitted through these computer systems and network infrastructure. PNB employs security systems and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and securities problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failure in security measures could have a material adverse effect on PNB's business, financial condition and results of operations.

PNB relies principally on short-term deposits for its funding needs.

PNB's funding needs are principally satisfied from demand, savings and time deposits, and to a smaller extent, borrowings from other banks. Although PNB's deposits have historically been a stable source of funding for PNB, no assurance can be given that this will continue to be the case in the future. In the event a substantial number of PNB's depositors withdraw, or do not roll over their deposits, or if other banks do not lend short term funds to PNB as they have in the past, PNB's liquidity position could be adversely affected, which could result in its inability to fund its loan portfolio and may require PNB to seek alternative sources of funding. PNB can provide no assurance as to the availability or terms of such funding. To the extent PNB is unable to obtain sufficient funding on acceptable terms or at all, PNB's liquidity and financial condition and results of operations will be adversely affected.

PNB could be materially and negatively affected by sudden and unfavorable changes in the Philippine banking industry.

PNB's financial condition and performance, like other local banks, is directly affected by trends and movements in the Philippine banking industry. Disruptions in the financial sector or in the general economic conditions of the Philippines may cause the Philippine banking industry, along with PNB, to encounter similar problems faced during the Asian economic crisis such as substantial increases in NPLs, liquidity issues, capital adequacy problems, and other challenges.

The current global economic climate could negatively impact PNB's business.

The global markets have been highly volatile in recent times due to the economic instability occurring in different areas of the world, particularly in Europe, that may continue to persist in the near future. Capital markets around the world, including in Asia, have reacted to these turbulent global economic conditions negatively and further volatility may adversely impact the Bank's business and performance. In addition, some economists have forecasted that the United States, China, and Europe will experience a slower pace of growth. All of these developments may significantly impact trade volumes with potentially untoward effects on the Philippines and eventually on the Bank's business.

There is no assurance that the volatility and uncertainty prevailing in global markets will not spill over and adversely affect credit markets in Asia, including in the Philippines. Any deterioration in the economic conditions in the Philippines as a result of the foregoing factors could materially and adversely affect the Bank's borrowers, clients and counter-parties. This, in turn, could materially and adversely affect the Bank's financial condition and results of operations, as well as the Bank's ability to implement its business strategy. There can also be no assurance that PNB and its operations will be protected against adverse developments arising from the global environment.

PNB is controlled by the Lucio Tan Group whose interests may significantly differ from other shareholders in the bank

As of 31 March 2013, the Lucio Tan Group Inc. (LTG) held indirect ownership of PNB shares amounting to about 48.61% and shareholders related to or who issue proxies/special powers of attorney in favor of Mr. Lucio C. Tan from time to time held a total of about 18.25% of PNB. As of the same date, Mr. Lucio C. Tan owned PNB shares representing 1.19% of PNB, while the remaining 31.95% of PNB are owned by other stockholders.

In addition, LT Group, Inc. has publicly disclosed its intention to acquire up to 60% indirect ownership in PNB (post-merger with Allied Banking Corporation). LT Group, Inc. is currently working to comply with any regulatory requirements for said investment, both locally and overseas in such countries/states where the Bank conducts branch or other banking operations. The interests of Mr. Lucio C. Tan and LT Group, Inc. may differ significantly from the interests of the Bank and/or the other shareholders and there can be no assurance that Mr. Lucio C. Tan and LT Group, Inc. will exercise their influence over PNB in a manner that is in the best interests of all shareholders.

RISKS RELATING TO THE PHILIPPINES

PNB is exposed to risks associated with the Philippines because substantially all of the Bank's assets and business activities are based in the Philippines.

Historically, PNB has derived substantially all of its operating income from the Philippines. Hence, PNB's business is highly dependent on the state of the Philippine economy. Factors that may adversely affect the Philippine economy include:

- uncontrollable inflation and increasing interest rates;
- high unemployment, dwindling consumer confidence and low income;
- exchange rate fluctuations;
- slowdown in business, industrial, manufacturing and financial activities;
- credit scarcity resulting in lower consumer spending;
- changes in Government fiscal policy;
- re-emergence of epidemic diseases such as SARS and avian influenza;
- natural catastrophes;
- political instability, mutinies, acts of terrorism and military conflict.

There is no assurance that the country will attain strong economic fundamentals in the future. Any abrupt changes in the conditions in the country may adversely affect PNB's business, financial position and profitability.

Political instability in the Philippines may negatively impact PNB's business, financial standing and profitability.

In recent years, the Philippines has seen several unsuccessful military uprisings and, every so often, public protests are held. A turbulent political atmosphere diminishes investor confidence and may adversely affect PNB's business. Despite the high approval ratings of President Benigno S. Aquino III, there can be no assurance that the country will avoid political turmoil.

Terrorist acts and high-profile violent crimes threaten the country's stability and may have an adverse effect on PNB's business, financial standing and profitability.

In recent history, the country has been victim to numerous acts of terrorism. There have been several prominent kidnappings and slayings of foreigners. A number of bombings have occurred. And, most recently, the hijacking of a tourist bus carrying Hong Kong tourists that resulted in the deaths of several passengers took place. These incidents alienate affected parties and have adverse effects on investor confidence, and consequently, the Philippine economy.

Natural catastrophes may negatively affect PNB's business, financial standing and profitability.

The Philippines is plagued by typhoons and is hit by floods, earthquakes and volcanic eruptions from time to time. The occurrence of natural disasters may affect the capacity of PNB's clients to fulfill their obligations to PNB.

Also, despite the implementation of business continuity management measures, there can be no assurance that PNB will be fully capable to deal with these kinds of situations and that insurance will fully compensate PNB for the damage and economic losses brought about by these catastrophes.

Any future changes in PFRS may affect the financial reporting of PNB's business.

PFRS continues to evolve as standards and interpretations promulgated subsequent to December 31, 2011 come into effect. In 2011, the BSP approved the guidelines on the early adoption by banks and other BSP-supervised financial institutions of PFRS 9 Financial Instruments under Circular No. 708 s. 2011. In 2012, the provision of Circular No. 708 was amended by Circular No. 761. PFRS 9 is the local adoption of International Financial Reporting Standards ("IFRS") 9 Financial Instruments, which is the first phase of the three-phase improvement project by the International Accounting Standards Board to ultimately replace International Accounting Standards ("IAS") 39 Financial Instruments: Recognition and Measurement. Phases 2 and 3 of the project deal with accounting for the impairment of financial assets and hedge accounting, respectively. Phase 1 of IFRS 9, which deals with the classification and measurement of financial assets and financial liabilities, was adopted in the Philippines by the Financial Reporting Standards Council as PFRS 9. It will become mandatory for annual periods beginning January 1, 2015, and early application is permitted. PFRS 9 aims to improve and simplify the classification and measurement of financial instruments. It requires entities to classify and subsequently measure financial assets at either amortized cost or fair value on the basis of both (a) the entities' business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial assets. Among others, PFRS 9 eliminates "Available-for-Sale" ("AFS") and "Held-to-Maturity" ("HTM") categories, together with the "tainting rule", which requires entities to reclassify HTM securities to AFS securities in the event that any more than an insignificant amount of an instrument booked under the HTM category is sold or reclassified. PFRS 9 also eliminates the requirement to bifurcate embedded derivatives from financial assets host contracts. It also requires enhanced disclosures to help the users of financial statements better understand the risks and the likely cash flows from the financial assets.

In addition to the required compliance with the provisions of PFRS 9 by banks and other BSP-supervised entities, the newly approved guidelines also provide for certain prudential requirements, such as approval by the entities' board of directors or equivalent governing body of the early adoption and submission by early adopters of the prescribed additional reportorial requirements. Phase 2 will deal with measurements of financial assets classified as amortized cost. This may require recognition of credit loss expectations which may be significantly different from current accounting requirements under IAS 39. On the other hand, Phase 3 will propose significant hedge accounting requirements in IAS 39. There can be no assurance as to the implementation of new accounting standards in the Philippines and the significance of the impact it may have on the future financial statements of PNB's businesses.

Corporate governance and disclosure standards in the Philippines may be less stringent than those in other countries.

There may be less publicly available information about Philippine public companies than is regularly made available by public companies in certain other countries. Philippine SEC and PSE requirements with respect to corporate governance standards may also be less stringent than those applicable in certain other jurisdictions. For example, the SRC requires publicly listed companies to have at least two independent directors or such number of independent directors as is equal to 20.0% of its board of directors, whichever is lower, but in no case less than two. Many other countries require significantly more independent directors. Further, rules against self-dealing and those protecting minority shareholders may be less stringent or developed in the Philippines. Such potentially lower standards in certain areas of disclosure and corporate governance may materially and adversely affect the interests of PNB's shareholders, particularly those of minority shareholders.

The sovereign credit ratings of the Philippines may adversely affect PNB's business.

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. Although the Philippines' long-term foreign currency-denominated debt was recently upgraded by Fitch and Standard & Poor's to the investment-grade rating of BBB-, Moody's has not upgraded its rating of the Philippines' sovereign debt to investment grade. The continued relatively low sovereign ratings of the Government may directly and adversely affect companies resident in the Philippines, as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Moody's, Standard & Poor's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including PNB. Any of such downgrades could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including PNB, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

RISKS ASSOCIATED WITH THE SHARES

The PNB shares are subject to market price fluctuations and liquidity risks.

The market price of securities fluctuates and no one can predict with certainty the behavior of the price of PNB shares. There is an inherent risk of loss attached to the PNB shares as downward price movement, even the total loss of its value, is a possibility. The Philippine securities markets are substantially smaller, less active, more volatile and less regulated than other more developed markets. Hence, an investor may not be able to sell his/her shares as quickly as he/she would desire at his/her desired price.

Despite the fact that the issue price has been determined after rigorous study, the PNB shares may trade at a significantly different price from the issue price subsequent to the completion of the issuance. PNB will apply for the listing of the issued shares on the PSE after registration. However, there can be no assurance that there will be an active trading market for the PNB shares or it will be sustained after the issuance and listing.

Future issuance of new PNB shares in the public market could adversely affect the prevailing market price of the shares and unfavorably impact the ownership of existing shareholders.

In the interest of business expansion, the Board may resort to raising capital through the issuance of new equity or equity-linked securities. This may cause existing shareholders to experience dilution and/or may result in their shares becoming subordinate to the newly issued securities. Furthermore, the market price of the shares may decline. The foregoing may affect PNB's ability to raise capital at a time and at a price it deems appropriate.

PNB may be unable to pay dividends on the shares.

There is no assurance that PNB can or will declare dividends on the shares in the future. Dividends, if any, are determined by the Board and will depend on PNB's performance, financial standing, capital requirements, loan obligations, legal, regulatory and contractual restrictions, and other factors the Board may deem pertinent.

DETERMINATION OF ISSUE PRICE

ING Bank, N.V., Financial Advisor to the majority shareholders of PNB and Allied Bank, proposed a share swap ratio between PNB and Allied Bank for approval by their respective Boards. The majority shareholders of PNB and Allied Bank considered several investment banks and selected ING on the basis of its qualifications and advisory track record in Philippine bank mergers and acquisitions.

ING is a Financial Advisor with a long track record in advising on merger and acquisition transactions in the Philippines. ING has advised in at least 19 M&A and advisory transactions involving banks and other financial institutions in the Philippines, including landmark deals such as the privatization of Philippine National Bank in 2005 and the merger between Banco de Oro and Equitable PCI Bank in 2008. ING has acted as the Financial Advisor for the majority shareholders of PNB and Allied Bank in relation to the proposed merger since 2007. ING is also accredited by the PSE to issue fairness opinions and valuation reports for listed companies and prospective listing applicants.

ING's recommendation was based solely on publicly available information and other information on Allied Bank and PNB provided to ING by the management teams of Allied Bank and PNB, Roxas de Los Reyes Laurel Rosario & Leagogo Law Offices and SGV & Co. (collectively known as "Management and Advisers"). In formulating the recommendation, ING relied on Management and Advisers to ensure that the information and facts supplied by them are true, accurate and complete in all material respects as of the date hereof and that all information which is or may be relevant, has been provided to ING. ING also relied on the discussions with members of the management of Allied Bank and PNB regarding their respective financial projections and other information provided to ING. ING did not independently verify such information nor conducted any independent in-depth investigation into the business, and the affairs, of Allied Bank, PNB, or the merged entity.

To determine the swap ratio, ING used contribution analysis to examine the relative contribution of PNB and Allied Bank to a hypothetical combined entity and thereby determine the ownership levels between both banks' shareholders in the enlarged entity.

Various methodologies were used, including (a) Relative "Fair Values" (e.g., Dividend Discount Model, Adjusted Net Asset Value, Comparables Analysis), (b) Relative Size (e.g., Total Assets, Interest-Earning Assets, Deposits, Stockholders' Equity), and (c) Relative Operating Performance (e.g., Interest Income, Net Interest Income, Net Interest Income + Non-Interest Income, Underlying Profit).

Each methodology yielded a certain relative contribution ratio between PNB and Allied Bank. Based on the relative contribution ratio and current outstanding capital stock of PNB, the required number of PNB common shares to be issued to Allied Bank shareholders, commensurate to Allied Bank's contribution to the enlarged entity, was computed. Such number of PNB common shares was, in turn, divided by the current outstanding capital stock of Allied Bank to arrive at an implied share swap ratio. After discussions with PNB and Allied Bank management and majority shareholders, ING proposed a specific share swap ratio within the range of implied share swap ratios for the various methodologies and presented such to PNB's and Allied Bank's Board of Directors for approval.

On 30 April 2008 and 24 June 2008, the Board of Directors and stockholders of PNB and Allied Bank, at separate meetings, approved the merger of both banks with PNB as the surviving entity. At that time, the stockholders of both banks approved the Exchange Ratio of 140 PNB common shares for one Allied Bank common share and 30.73 PNB common shares for one Allied Bank preferred share at the issue price of P55.00 per share. Thereafter, PNB sought for the approval of the merger with the BSP, the Philippine Deposit Insurance Corporation ("PDIC") and the SEC, as well as foreign regulators for its operations abroad. Due to certain regulatory requirements, however, the merger was delayed. PNB has since complied with the same regulatory requirements.

Due to the passage of time since the Boards' and shareholders' approvals in 2008, both banks decided to review the exchange ratio for their respective shares. Upon the recommendation of ING, the following exchange ratio was proposed:

1. 130 PNB common shares for each Allied Bank common share
2. 22.763 PNB common shares for each Allied Bank preferred share.

The Issue Price was also recommended to be increased to P70.00 per share for P55.00 per share.

On 16 December 2011 and 6 March 2012, each of the Board of Directors and shareholders of PNB and Allied Bank, at separate meetings, approved the proposed a share swap ratio of 130 PNB common shares for each Allied Bank common share and 22.763 PNB common shares for each Allied Bank preferred share at an Issue Price of P70.00 per share.

On July 25, 2012, the PDIC granted its consent to the proposed merger of PNB and Allied Bank, with PNB as the surviving entity, pursuant to Sec. 21 (c) of R.A. 3591, as amended (the "PDIC Charter"), subject to certain conditions. This was followed by the BSP's approval of the Plan and Articles of Merger on August 13, 2012, subject also to certain conditions.

On January 17, 2013, the SEC approved the Plan and Articles of Merger.

Applying the Exchange Ratio, the stockholders of Allied Bank are entitled to the corresponding shares of PNB in the following amounts:

Name of Allied Bank Stockholders	Type of ABC Shares	Number of ABC Shares	Converted PNB Shares
1. Key Landmark Investments, Ltd.	Common	729,872	94,883,360
2. True Success Profits Ltd.	Common	449,152	58,389,760
3. Caravan Holdings Corporation	Common	449,152	58,389,760
4. Solar Holdings Corporation	Common	449,152	58,389,760
5. Prima Equities & Investments Corporation	Common	393,008	51,091,040
6. Infinity Equities, Inc.	Common	336,864	43,792,320
7. Virgo Holdings & Development Corporation	Common	52,617	6,840,210
8. Virgo Holdings & Development Corporation	Preferred	25,000	569,075
9. Jewel Holdings, Inc.	Common	77,005	10,010,650
10. Iris Holdings & Development Corporation	Common	46,937	6,101,810
11. Iris Holdings & Development Corporation	Preferred	25,000	569,075
12. Lucio C. Tan	Common	99,285	12,907,050
13. Ignacio B. Gimenez	Common	44,089	5,731,570
14. Willy S. Co	Common	38,768	5,039,840
15. Kings Investment & Development Corporation	Common	29,571	3,844,230
16. Mariano Tanenglian	Common	17,635	2,292,550
17. Ramon Lee	Common	17,635	2,292,550
18. Luz L. Siy	Common	8,759	1,138,670
19. Nelly S. Sy	Common	8,716	1,133,080
20. Domingo T. Chua	Common	3,511	456,430
21. Mariano Khoo	Common	440	57,200
22. Ramon L. Siy	Common	150	19,500
23. Mariano G. Ordonez	Common	142	18,460
24. James Ang Yiok Teck	Common	10	1,300
25. Manuel T. Gonzales	Common	10	1,300
26. P.O. Domingo	Common	10	1,300
27. Michael G. Tan	Common	1	130
28. Reynaldo A. Maclang	Common	1	130
29. Harry C. Tan	Common	1	130
30. Patrick L. Go	Common	1	130
31. Anthony Q. Chua	Common	1	130
TOTAL		3,302,495	423,962,500

DILUTION

The merger with Allied Bank will be undertaken via a share-for-share swap transaction, where all the issued and outstanding common shares of Allied Bank will be converted to fully-paid and non-assessable common shares of PNB at a ratio of 130 PNB common shares for each issued Allied Bank common share and all the outstanding preferred stock of Allied Bank will be converted to fully paid and non-assessable PNB common shares at a ratio of 22.763 PNB common shares for each Allied Bank preferred share, all at an issue price of ₱70.00.

The book value attributable to PNB's common shareholders, based on PNB's audited financial statements as of December 31, 2012, was ₱38.8 billion, while the book value per share was at ₱58.65. The book value represents total equity attributable to equity holders of PNB. PNB's book value per share is computed by dividing the book value by the number of common shares outstanding less shares held by a subsidiary.

Dilution in book value per share to Allied Bank shareholders represents the difference between the issue price and the book value per share (excluding goodwill) as of March 31, 2013. The book value per share (excluding goodwill) represents total equity attributable to equity holders of PNB less goodwill, divided by the number of common shares outstanding post-merger less shares held by a subsidiary.

The following table illustrates dilution on a per share basis based on the issue price:

Issue price per share	₱ 70.00
PNB book value per share as of December 31, 2012	₱ 58.65
Difference in issue price per share and PNB book value per share as of December 31, 2012	₱ 11.35
Book value per share (excluding goodwill) as of March 31, 2013	₱ 62.20
Dilution in pro forma book value per share to Allied Bank shareholders	7.80

The following table sets forth the shareholdings and percentage of common shares outstanding of existing PNB shareholders and Allied Bank shareholders immediately after completion of the issuance:

	Common shares	
	Number	**%**
Existing PNB shareholders	662,245,916	61%
Allied Bank shareholders	423,962,500	39%
Total	1,086,208,416	100%

PLAN OF DISTRIBUTION

As the issuance of shares is limited to the shareholders of Allied Bank and only occurs by operation of law upon the SEC's approval of the Merger between Allied Bank and PNB, there is no underwriter or marketer engaged by PNB with respect to this offering, as such, there is no compensation to be paid to selling agents, underwriters or marketers with respect to this offering. There is likewise no compensation to be paid to selling agents or underwriters by PNB with respect to this offering. Further, there are no brokers/dealers or finders engaged for purposes of this offering.

Designated Shares and Allocations

The shares to be issued under this offering are issued on a limited basis to the shareholders of Allied Bank as part of the Merger which was undertaken via a share-for-share swap transaction. As contained in the Plan of Merger, all the issued and outstanding Common Stock of Allied Bank will be converted into fully-paid and non-assessable Common Stock of PNB at a ratio of 130 PNB Common Shares for each issued Allied Bank Common Share while all the issued and outstanding Preferred Stock of Allied Bank will also be converted into fully-paid and non-assessable PNB Common Shares at a ratio of 22.763 PNB Common Shares for each issued Allied Bank Preferred Share.

On 17 January 2013, the SEC approved the Merger of PNB and Allied Bank and simultaneously approved the amendment of the Articles of Incorporation of PNB reclassifying PNB's 195,175,444 Authorized Preferred Shares into Authorized Common Shares thereby increasing its Authorized Common Shares to 1,250,000,001 corresponding to its Authorized Capital Stock of ₱50,000,000,040.00. As a consequence of the approval of the Plan and Articles of Merger and by operation of law, PNB is then required to issue new PNB Common Shares out of its authorized and unissued capital stock at an Issue Price of ₱70.00 per share to swap for the outstanding Allied Bank Common Shares and Preferred Shares in accordance with the Plan of Merger.

Said new PNB Common Shares will be listed on the Philippine Stock Exchange ("PSE").

In case of any resulting fractional shares from the above Exchange Ratio, each holder of Allied Bank Common Shares and Allied Bank Preferred Shares who would otherwise be entitled to such fractional share shall be entitled to an amount in cash, without interest, rounded to the nearest centavo equal to the product of (a) the amount of the fractional share interest in a PNB Common Share to which such holder is entitled and (b) the average of the closing sale prices for PNB Common Shares on the PSE for each of the thirty (30) consecutive trading days ending on the date of execution by the parties to the Amended Plan of Merger.

Applying the Exchange Ratio, all of the shareholders of Allied Bank are entitled to a corresponding number of PNB shares, as follows:

ALLIED BANK SHAREHOLDERS AND THEIR CORRESPONDING PNB SHARES:

Name of Allied Bank Stockholders	Type of ABC Shares	Number of ABC Shares	Converted PNB Shares
1. Key Landmark Investments, Ltd.	Common	729,872	94,883,360
2. True Success Profits Ltd.	Common	449,152	58,389,760
3. Caravan Holdings Corporation	Common	449,152	58,389,760
4. Solar Holdings Corporation	Common	449,152	58,389,760
5. Prima Equities & Investments Corporation	Common	393,008	51,091,040
6. Infinity Equities, Inc.	Common	336,864	43,792,320
7. Virgo Holdings & Development Corporation	Common	52,617	6,840,210
8. Virgo Holdings & Development Corporation	Preferred	25,000	569,075
9. Jewel Holdings, Inc.	Common	77,005	10,010,650
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12. Lucio C. Tan	Common	99,285	12,907,050
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18. Luz L. Siy	Common	8,759	1,138,670
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27. Michael G. Tan	Common	1	130
28. Reynaldo A. Maclang	Common	1	130
29. Harry C. Tan	Common	1	130
30. Patrick L. Go	Common	1	130
31. Anthony Q. Chua	Common	1	130
TOTAL		**3,302,495**	**423,962,500**

DESCRIPTION OF SECURITIES TO BE REGISTERED

Prior to the approval of the Merger, PNB's authorized capital stock amounted to ₱50,000,000,040.00 divided into 1,054,824,557 common shares at a par value of ₱40.00 per share and 195,175,444 preferred shares at a par value of ₱40.00 per share. In accordance with the Plan of Merger, the Bank re-classified all its preferred shares to common shares to accommodate the issuance of 423,962,500 shares to the shareholders of Allied Bank. On 17 January 2013, the Securities and Exchange Commission approved the Plan of Merger and the Amended Articles of Incorporation including the re-classification of 195,175,444 preferred shares to common shares, thereby increasing the number of common shares to 1,250,000,001 common shares with a par value of ₱40.00 per share, of which 423,962,500 are issued to Allied Bank shareholders.

As of February 28, 2013, the total number of shares issued and outstanding was 1,086,208,416, of which 761,615,541 shares (or 70.11689%) were held by Filipino-Private Stockholders while the remaining 324,592,875 shares (or 29.88311%) are held by Foreign-Private Stockholders. The Bank has a total of ₱43,448,336,640.00 subscribed capital.

At each meeting of stockholders, every stockholder entitled to vote on a particular question involved is entitled to one (1) vote for each share of stock standing in his name in the books of the Bank at the time of the closing of the Stock and Transfer Book for such meeting or on the record date fixed by the Board of Directors (*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*."

The Articles of Incorporation of PNB provides that the shareholders have no pre-emptive right on any new issuance of shares.

DIVIDEND POLICY

PNB is authorized under Philippine law to declare dividends, subject to certain requirements. The Bank's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, the Bank's declaration of dividends, including computation of unrestricted retained earnings, is subject to compliance with certain rules and regulations prescribed by the Bangko Sentral ng Pilipinas (BSP) as provided under the Manual of Regulations for Banks (MORB).

As of the date of this Prospectus, PNB has not adopted a specific dividend policy which prescribes a minimum percentage of net earnings to be distributed to its shareholders.

The Bank has not declared any cash dividend on its common shares for the fiscal years 2011 and 2012.

INTEREST OF NAMED EXPERTS AND INDEPENDENT COUNSEL

There are no experts or independent counsel who will receive a direct or indirect interest in the Issuer or who was a promoter, underwriter, voting trustee, director, officer, or employee of the registrant.

Apart from normal professional fees payable to the following entities which assisted PNB and ABC with respect to the Merger and this Offer, no arrangement exists whereby any of the following will receive any fees, benefits, securities or any direct or indirect interest from PNB in connection with this Offer:

SGV & Co. audited the financial statements of the Registrant for the years ended 31 December 2010, 2011, and 2012 and March 31, 2013 included in this prospectus. SGV & Co. does not have shareholdings in PNB nor any right to nominate persons or subscribe to PNB shares.

ING Bank, N.V., Financial Advisor to the majority shareholders of PNB and Allied Bank, proposed the share swap ratio between PNB and Allied Bank for approval by their respective Boards and for submission to the shareholders. ING has no direct or indirect interest in PNB.

Roxas de Los Reyes Laurel Rosario & Leagogo Law Offices was engaged as Transaction Counsel for the Merger. Roxas De Los Reyes Laurel Rosario & Leagogo Law Offices does not have any direct or indirect interest in PNB.

UBS Investments Philippines, Inc. (“UBS”) rendered a “Fairness Opinion” as to the valuation of the PNB Shares and the Exchange Ratio. UBS does not have any direct or indirect interest in PNB.

INFORMATION WITH RESPECT TO THE REGISTRANT

DESCRIPTION OF BUSINESS OF PNB

A. Business Development

Philippine National Bank (PNB or the "Bank"), the country's first universal bank, is the Philippines' fourth largest private commercial bank in terms of total assets, deposits, net loans and receivables according to the Bank's published SEC Form 17-Q report, as of 31 March 2013.. The Bank was established as a government-owned banking institution on July 22, 1916. As an instrument of economic development, the Bank led the industry through the years with its agricultural modernization program and trade finance support for the country's agricultural exports, pioneering efforts in the Overseas Filipino Workers (OFW) remittance business, as well as the introduction of many innovations such as Bank on Wheels, computerized banking, ATM banking, mobile money changing, domestic traveler's checks, and electronic filing and payment system for large taxpayers. PNB has the widest overseas office network and one of the largest domestic branch networks among local banks.

Pursuant to its policy of rationalizing its involvement in corporate ventures and the privatization of Government-Owned-and-Controlled Corporations (GOCCs) under Proclamation No. 50, the Government offered to the Philippine public 30% of the outstanding shares of the Bank in June 1989. The Government further disposed 10% and, afterwards, 7.2% of its outstanding shares in the Bank to the Philippine public in April 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 ₱60.00 to ₱40.00. This was done in order to accommodate the ₱7.8 billion debt-to-equity conversion of the Philippine Deposit Insurance Corporation (PDIC) through the issuance of 195,175,444 preferred shares and to put in place a rehabilitation program that will facilitate the turn-around and sustained stability of PNB. These events resulted in the Government, through the PDIC, increasing its stake in the Bank to 44.98%, at par with the 44.98% voting stake of the Lucio Tan Group (LTG)[1].

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

PNB concluded its 5-year Rehabilitation Plan as approved by the Bangko Sentral ng Pilipinas (BSP) in May 2007. The Bank also settled its ₱6.1 billion loan with PDIC in June 2007, more than four (4) years ahead of the loan's due date. The loan repayment was a clear indication of the Bank's renewed financial health.

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[1] *A group of companies and individual shareholders related to/associated with and/or have given special powers of attorney to Mr. Lucio C. Tan.*

In August 2007, PNB completed its Tier 1 Follow-On Equity Offering when it raised approximately ₱5.0 billion in Tier 1 Capital. Together with the sale of 89 million primary shares, 71.8 million secondary shares owned by the Government, through the PDIC and Department of Finance (DOF), were sold to the public, paving the way for a complete exit of the Government from PNB.

Merger Developments

On April 30, 2008, the respective Board of Directors of PNB and Allied Banking Corporation passed resolutions approving the plan to merge the two banks. The plan of merger was subsequently approved on June 24, 2008 by the affirmative vote of PNB and Allied Bank's respective shareholders representing at least two-thirds of the outstanding capital stock of each bank. The banks submitted the Plan of Merger to the BSP on July 30, 2008.

In December 2008, the merger, which was expected to have been completed by the end of 2008, encountered delays due to the requirement on ABC to divest its 27.78% equity share in Oceanic Bank, a commercial bank based in California, USA, in compliance with US banking regulations.

PNB and Allied Bank's respective Boards of Directors passed a resolution in October 2011 approving the execution of a Voting Trust Agreement among PNB, Oceanic Holding (BVI) Ltd. and Mr. Walter Mix III, the nominated trustee. The agreement placed all shares of the holding company that directly owned Oceanic Bank in a trust to be sold to third parties. Allied Bank owned 27.78% of Oceanic Holding (BVI) Ltd. which in turn owned Oceanic Bank Holding, Inc., the parent company of Oceanic Bank in San Francisco, California, U.S.A. PNB, as successor-in-interest of Oceanic Bank upon merger, assumed all rights and responsibilities under the Agreement. The US Federal Reserve Board subsequently approved the Voting Trust Agreement in order to facilitate the merger of PNB and ABC in a manner that addressed US regulatory concerns.

On March 6, 2012, PNB and Allied Bank separately held Special Stockholders' Meetings approving amended terms in the Plan of Merger of the two banks. In order to secure all necessary approvals from the regulators, the banks submitted their Amended Plan of Merger to the BSP and the PDIC on March 26, 2012 and to the SEC on April 12, 2012.

On March 27, 2012, the trustee of the shareholders of Oceanic Holding (BVI) Ltd. entered into a definitive agreement with FNB Bancorp (FNBG), the parent company of First National Bank of North California, whereby the former agreed to sell to FNBG all of the outstanding stocks of Oceanic Bank Holding, Inc., the parent company of Oceanic Bank.

On July 25, 2012, the PDIC granted its consent to the Merger of PNB and Allied Bank, with PNB as the surviving entity, pursuant to Sec. 21c of R.A. 3591, as amended (PDIC Charter), subject to certain conditions. This was followed by the advice from the BSP approving the Plan and Articles of Merger on August 13, 2012, subject also to certain conditions.

On January 17, 2013, the SEC approved the Amended Plan and Articles of Merger.

Having already gained all necessary regulatory approvals to proceed with the merger, the Board of Directors of PNB and Allied Bank, in separate Special Board Meetings held on January 22, 2013 and January 23, 2013, respectively, set the effective date of the merger on February 9, 2013. Thus, on February 9, 2013, PNB and Allied Bank merged into one bank.

With the merger, PNB is now the fourth largest private commercial bank in terms of assets based on the Bank's published Statement of Condition as of March 31, 2013.

Recent Developments

In the Annual Stockholders' Meeting of PNB held on May 28, 2013, the stockholders of PNB approved the increase in authorized capital stock of the bank from P50,000,000,040.00 divided into 1,250,000,001 common shares with a par value of Forty Pesos (P40.00) per share to P70,000,000,040.00 divided into 1,750,000,001 common shares with a par value of Forty Pesos (P40.00) per share.

B. Business Description

1. Products and Services

PNB, as a Merged Bank, through its Head Office and 654 Domestic Branches and offices and 89 Overseas Branches and Representative Offices, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB'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.

Its banking activities are undertaken through the following groups within the Bank, namely:

<u>Institutional Banking Group</u>

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 its non-performing assets, the Bank's focus has now shifted to developing its loan portfolio.

Retail Banking Group

The principal focus of the Retail Banking Group (RBG) 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 653 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 the Bank's overseas offices which essentially provide convenient and safe remittance services to numerous OFWs abroad and full banking services in selected jurisdictions. PNB has the largest overseas network among Philippine banks with 89 branches, representative offices, remittance centers and subsidiaries in the United States of America (USA), Canada, Europe, the Middle East and Asia. PNB also maintains correspondent relationships with 844 other banks and financial institutions worldwide.

Treasury Group

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

PNB through its Trust Banking Group (TBG) 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. TBG's 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 Assets 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

PNB faces competition from both domestic and foreign banks, in part as a result of the liberalization of the banking industry by the National Government which allowed the entry of more foreign banks. The presence of these foreign banks has also increased competition in the corporate market, resulting in more domestic banks focusing on SMEs.

As of 31 March 2013, based on banks' published statement of condition, the Bank ranks 4th in terms of total assets among the five leading domestic commercial banks in the Philippines.

(₱ Millions)	**As of 31 March 2013**			
Consolidated	**Total Assets**	**Total Capital**	**Total Loans & Receivables**	**Total Deposits**
BDO Unibank, Inc.*	1,240,432	176,034	773,563	920,221
Metropolitan Bank and Trust Co.*	1,020,161	141,380	523,267	690,385
Bank of the Philippine Islands*	939,514	107,934	513,889	749,340
Philippine National Bank**	550,400	86,490	241,361	394,612
Rizal Commercial Banking Corp.*	368,112	48,302	197,784	231,608

**Source: 17-Q Disclosures with the PSE*
***Based on the interim audited consolidated financial statements*

3. Revenue by Geographical Location

PNB and its subsidiaries (hereinafter referred to as 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 the past three (3) years and for the three-month period ended March 31, 2013:

	March 2013	2012	2011	2010
Philippines	96%	93%	92%	91%
Asia (excluding the Philippines)/ Middle East	2%	3%	4%	4%
Canada and USA	2%	3%	3%	4%

United Kingdom & Other European Union Countries		1%	1%	1%
Total	100%	100%	100%	100%

4. New Products and Services

The Bank has launched the following products and services in 2012 and up to April 2013:

- The PNB Debit Mastercard and GFC Prepaid Card
- Cardless ATM Facility
- New PNB Phone Banking
- PNB Visa
- PNB-Allied Bank Mastercard in Control
- Pinnacle Club
- PNB High Dividend Fund
- Phone Remittance
- Fastcash ATM Account

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 those of other individuals and businesses of comparable risk. Under BSP Circular 423, of the amount of direct credit accommodations to each of the Bank's DOSRI, 70% must be secured and 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, December 31, 2012 and March 31, 2013 PNB is in compliance with the aforementioned BSP regulations.

Information related to transactions with related parties and with certain DOSRI is shown under Note 31 of the Audited Financial Statements of the Bank and Subsidiaries.

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) (July 01, 2012 to June 30, 2013) – Provides support services to various bank operations for workflow development.

- IBM Websphere MQ Processor (July 1, 2012 to June 30, 2013) – 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 unless terminated earlier in accordance with the terms of the contract.

- 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 SW Subscription and Support for 12 months (January 1, 2013 to December 31, 2013) – Unless revoked by the Bank, 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 a continuous renewal of annual maintenance services.

- Internet Banking System – Provides support for the Internet Banking System of the Bank.
  - All Microsoft products have Per Seat Licensing.

- Tandem/Base24 ATM System
  - HP Nonstop/Tandem S76 HW/SW (October 8, 2012 to October 7, 2013) – The platform wherein the Base24 ATM/CMS/FHM application runs. The machine has to be operational 24/7, hence the requirement for its continuous renewal of maintenance services. The maintenance agreement will be renewed on a yearly basis.

  - Atalla A9100/SCA (October 8, 2012 to October 7, 2013) – The hardware which performs the PIN authentication for ATM and IBS enrollment transactions. ATM and IBS enrollment services are 24/7, hence the requirement for its continuous renewal of maintenance services. The maintenance agreement is renewed on a yearly basis.

- Safeguard security software (October 8, 2012 to October 7, 2013) - Ensures that the security policies are enforced to protect the HP Nonstop and Base24 processes. The maintenance agreement is renewed on a yearly basis.

- Prognosis Monitoring Software - Allows for the GUI-based monitoring and downloading of ATMs. Prognosis also makes it possible for the system alerts and ATM tickets to be broadcasted to specified e-mail addresses. It is also being utilized in report and statistics generation.

- Tandem Himalaya Hardware – 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 - The 24/7 ATM system of the Bank. The maintenance agreement is renewed on a yearly basis.

• Base24 Application Software Maintenance – PNB version and its components will operate and perform substantially in accordance with the published specifications from the date of the User Acceptance of Application Software – PNB Version. The maintenance agreement is renewed on a yearly basis.

• PNB Debit Card and Prepaid MasterCard Banknet Software Licenses and Support Services (December 7, 2011 to December 6, 2015) - 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, 2012 to November 5, 2013) – Provides support services to various bank operations for workflow development.

• Cash Management System License (Perpetual renewal starting August 9, 2009) – Provides support services to various bank operations for workflow development.

• ASG Zena – Job Scheduler (December 22, 2012 to December 21, 2013) – Provides support services to various bank operations for workflow development.

• IVRS Hardware Upgrade – Provides support services to various bank operations for workflow development. Maintenance support under negotiation.

• Microsoft MS Premiere Support Agreement – 180 hours (December 28, 2012 to December 27, 2013) – Provides support services, problem resolution and technical advice on issues/problems on all Microsoft software products.

• PNB Public IP Address and Autonomous System Number (February 1, 2013 to January 31, 2014) – Enables the Bank to have its own Internet identity in the

World Wide Web and helps achieve a lower latency response by maintaining a standard routing system in the Internet.

- Security/Network Devices – Purchase of McAfee Nitro Solution to deliver full Security Information and Events Management (SIEM) function was approved in January 2013. The solution will handle 94 security/network devices and 185 Windows servers. The benefit of acquiring this solution will enhance the Bank's security capability.

- Enterprise Monitoring System (January 1, 2013 to December 1, 2013) – OpenView support maintenance.

- Oracle Adaptive Access Manager (November 9, 2012 to November 8, 2013) – Maintenance support for OAAM Authentication System.

- ePLDT (formerly MySecuresign)
  - Verisign Global Server ID (IBS Internet) – IBS, PNB.COM.PH (March 13, 2013 to March 12, 2015)
  - Verisign Global Server ID for MDC GCash Servers (GCASH.PNB.COM.PH and CGASH2.PNB.COM.PH) (October 9, 2012 to October 7, 2013)
  - Verisign Global Server ID (128-bit Encryption Strength) Verisign Digital Server License – Portal OAAM (July 6, 2012 to July 6, 2014)
  - Verisign Global Server ID (128-bit Encryption Strength) Verisign Digital Server License – IRS World Application (October 4, 2012 to October 4, 2014)
  - Verisign Global Server ID for CMS (September 5, 2012 to September 5, 2014)

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 the aforementioned BSP requirements.

8. Estimate of Amount Spent for Research and Development Activities

This is not applicable to the Bank.

9. Number of Employees

The total employees of the Bank as of 31 March 2013 is 8,858 wherein 3,632 were classified as Bank officers and 5,226 as rank and file employees.

With regard to the Collective Bargaining Agreement (CBA), all original rank and file employees of the Bank, except those who are assigned in selected offices, are covered by an agreement which will expire on June 30, 2014.

Former ABC rank and file employees, except those who are assigned in selected offices, are covered by a separate CBA which will expire on September 30, 2014.

The Bank has not suffered any strikes, and the Management of the Bank considers its relations with its employees and the Union as harmonious and mutually beneficial.

10. 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, the Risk Management Group (RMG) is primarily responsible for the risk management functions to ensure that a robust organization is maintained. The RMG, independent from the business lines, is organized into 4 divisions: (i) Credit Risk and BASEL II and ICAAP Implementation Division, (ii) Market & ALM Division, (iii) Operational & Information Technology Security Risk Management, and (iv) Business Intelligence Division.

Each division maintains, monitors and enhances, as needed, 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 RMG continues to implement the following risk management tools and reporting requirements to strengthen and enhance the sophistication of the Bank's risk management system and address the volatile risk environment.

Market Risk

1. 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 fixed income, foreign exchange and equity markets. To calculate the risks in the trading portfolio, the Bank employs the Value-at-Risk (VAR) methodology with 99% confidence level and a one (1) day holding period (equities and FX VAR) to a ten (10) day holding period for fixed income VAR.

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

The Bank also employs the stop-loss monitoring tools 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.

2. Structural Market Risk

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

3. Liquidity and Funding Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the parent company's inability to meet its obligations when they fall due. Liquidity obligations arise from withdrawal of deposits, extension of credit, working capital requirements and repayment of other obligations. The Bank seeks to manage its liquidity through active management of liabilities, regular analysis of the availability of liquid asset portfolios as well as regular testing of the availability of money market lines and repurchase facilities aimed to address any unexpected liquidity situations. The tools used for monitoring liquidity include gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of sufficiency of liquid assets over deposit liabilities and regular monitoring of concentration risks in deposits by tracking accounts with large balances. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the Bank.

Credit Risk

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

1. Credit Policies and Procedures

All credit risk policies issued by the regulatory bodies (i.e. 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

2. Credit Risk Functional Organization

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

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

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

The approving authorities are clearly defined in the Board-approved Manual of Signing Authority (MSA).

3. Credit Limit Structure

The Bank adopts a credit limit structure (regulatory and internal limits) as a quantitative measure of the risk tolerance duly approved by the Board. Breaches in the limits are monitored via the monthly credit dashboard reported to the Risk Oversight Committee.

4. Stringent Credit Evaluation

Repayment capacity of prospective borrowers is evaluated using an effective internal risk rating model for corporate and micro small medium enterprise (MSME) accounts and appropriate credit scoring program for consumer loans. These models are validated to determine predictive ability.

5. Reporting System

An effective management information system (MIS) is in place and, at a minimum, has the capacity to capture accurate credit risk exposure/position of the Bank in real time. A monthly credit dashboard is used as the reporting tool for appropriate and timely risk management process.

6. Remedial Management System

A work-out system for managing problem credits is in place. Among others, these are renewals, extension of payment, restructuring, take-out of loans by other banks, and regular review of the sufficiency of valuation reserves.

7. 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 show minimum impact and have no material effect on the Bank's NPL ratio and capital adequacy ratio (CAR).

Operational Risk

1. People Risk

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

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 means (continuously conducted trainings) or informal means (monthly meetings and discussing issues at hand). 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 they are not qualified for. Annual evaluation and the implementation of balanced scorecards are used to ensure that ill-fitted personnel are re-trained, re-tooled or re-skilled to equip them better.

2. Process Risk

In financial institutions, most processes are designed with audited fail-safe features 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 the institution vulnerable in many 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.

3. Business Strategy Risk

Strategic Risk can arise when the direction/strategy of a bank can lead to non-achievement of business targets. This results from a new focus of a business sector without consolidating it with the bank's overall business plan and strategy. At PNB, strategy risk is managed through each business sector performing "actuals vs. targets" sessions and reporting to the Board of Directors through regular management profitability reporting sessions. In addition, coordination between business sectors is done through regular meetings by the Senior Management Team to ensure that overall business targets are continually revisited.

4. Business Environment Risk

Banks tend to have the least control over this source of operational risk yet it still needs to be managed. Business environment risk can arise from unanticipated legislative changes such as consumer affairs, physical threats such as bank robberies, terrorist attacks, natural disasters and regulatory required financial report change, new or otherwise.

New competitive threats such as faster delivery channels, new products, new entrants and the ever-increasing rationalization of the banking industry are driving banks to become much more nimble-footed. The flexibility required to remain in the game leads some banks to take shortcuts that eventually expose them to some new source of operational risk.

PNB is involved and engaged in the Product Management Business Framework where old and new products alike are monitored by assigned product managers who coordinate with the various business sector heads in achieving the Bank's business plan. Further, a Product Committee composed of senior managers has been convened and meets regularly to ensure that business environment is closely monitored as to competition and delivery channels and that overall service levels are kept at acceptable level.

Information Technology Risk

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 (ITG) has introduced risk mitigation measures which include, but are 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 may end up being incorrectly tested prior to cut-over for production. The process for system cut-over, from development to testing to production, is always subject to 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 personnel (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 and make them more efficient.

This then may contribute to systems not being utilized properly, whether wrongly or inadequately utilized. To close this gap, meetings are conducted continuously.

The Bank has institutionalized and implemented the IT Governance Committee which is composed of members of the Senior Management Team, who discuss the monthly ITG Dashboard prior to it being presented to the Risk Oversight Committee. Among the topics commonly discussed are as follows:

(a) Bank's IT Strategic Plan
(b) Incident Reporting
(c) Business Continuity Management
(d) Major IT Projects
(e) Enterprise Project Management

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.

Business Intelligence

The primary determinant of an enterprise's risk management program rests on the availability and accuracy of information – when needed. While the Bank's core banking and other related transactional systems provide for the efficient processing of the bank's products and services, it is necessary for the Bank to have a good management information system for various uses – regulatory reporting, performance management and risk management.

At PNB, the Business Intelligence Division was set up under the auspices of the Risk Management Group (RMG). 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; and assists other divisions/units of the RMG in managing the group's database(s), statistical model development & calibration, and database analysis.

Further, the benefit of the Enterprise Data Warehouse Global Banking Data Model (EDW-GBDM) is now evident as a single source of information for the other business groups particularly, Retail Banking Group, Institutional Banking Group and Corporate Credit Group. The EDW-GBDM continuously provides dashboards for business managers' decision support. The EDW-GBDM for Treasury Group is currently being developed. It is the intent that the complete model for the Enterprise Data Warehouse will provide a whole picture of the Bank's balance sheet with an in depth examination of individual transactions.

Regulatory Capital Requirements under BASEL II – Pillar 1

The Bank's total regulatory requirements as of December 31, 2012 are as follows:

(Amounts in ₱0.000 million)	Weighted Exposures
Total Credit risk-weighted assets	183,598.708
Total Market risk-weighted assets	3,255.293
Total Operational risk-weighted assets	23,385.190
Total Risk-Weighted Assets	**210,239.191**
PNB's Risk-based Capital Adequacy Ratio	**18.12%**

Operational Risk – Weighted Assets

The Bank adopted the Basic Indicator Approach in quantifying the risk weighted asset for Operational Risk. Under the Basic Indicator Approach, the Bank is required to hold capital for operational risk equal to the average over the previous three years of a fixed percentage (15% for this approach) of positive annual gross income (figures in respect of any year in which annual gross income was negative or zero are excluded).

(amounts in ₱0.000 Million)	Gross Income	Capital Requirement (15% x Gross Income)
2009	12,867	1,930
2010	13,377	2,007
2011 (last year)	11,171	1,677
Average for 3 years		1,871
Adjusted capital Charge	Ave x 125%	2,338
Total Operational Risk weighted Asset		23,385

Credit Risk –Weighted Assets

The Bank still adopts the standardized approach in quantifying the risk weighted assets. Credit risk exposures are risk weighted based on third party credit assessments of Fitch, Moody's, Standard & Poors and Philrating agencies. The ratings of these agencies are mapped in accordance with the BSP. Following are the consolidated credit exposures of the Bank and the corresponding risk weights:

	Net Exposure*	0%	20%	50%	75%	100%	150%
Cash & Cash Items	5,599	5,332	267				
Due from BSP	36,537	36,537					
Due from Other Banks	6,357		1,964	2,363		1,990	40
Financial Asset at FVPL	1,311					1,311	
Available for Sale	53,207	28,499	1,134			23,574	
Unquoted Debt Securities	6,204					968	5,236
Loans & Receivables	113,087		13,366	5,385	4,680	87,754	1,902
Sales Contracts Receivable	3,700					2,910	790
Securities held under Agreements to resell	18,307	18,307					
Real & Other Properties Acquired	11,126						11,126

Other Assets	22,386					22,386	
Total On Balance Sheet Asset	277,821	88,675	16,731	7,748	4,680	140,893	19,094
Risk Weighted Asset - On-Balance Sheet	180,264	0	3,346	3,874	3,510	140,893	28,641
Total Off-Balance Sheet Asset	9,084	3,016	513	4,645	198	712	0
Total Risk Weighted Off-Balance Sheet Asset	**3,335**	**0**	**102.4**	**2,323**	**198**	**712**	**0**

**Net of specific provision and risk mitigants*

Market Risk -Weighted Assets

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

Capital Requirements by Market Risk Type under Standardized Approach

(Amounts in ₱0.000Million)	Capital Charge	Market Risk Weighted Exposures
Interest Rate Exposures	176.134	2,201.680
Foreign Exchange Exposures	53.424	667.805
Equity Exposures	30.864	385.808
Total	260.422	3,255.293

The following are the Bank's exposure with assigned risk weights held for trading portfolio:

Interest Rate Exposures
Specific Risk

- Specific Risk from the Held for Trading Portfolio is ₱85.058M. ROPs compose 50% of the portfolio with risk weight of 8%, 45% in peso government bonds with zero risk weight and 5% are corporate bonds with remaining maturity over 2 years and rated AAA which carries 1.60% risk weight.

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in ₱0.000 million)	Risk Weight			
	0.00%	1.60%	8.00%	Total
PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP	935.644	-	-	
FCY-denominated debt securities issued by the Philippine NG/BSP	-		1,039.342	

Debt securities/derivatives with credit rating of AAA to BBB- issued by other entities	-	101.486	-	
Subtotal	-	1.624	83.147	84.771
Specific Risk Capital Charge for Credit Default Swaps	-	-	-	0.287
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES				85.058

General Market Risk –Peso

- The Bank's exposure to Peso General Market Risk is ₱67.197M, brought about by Debt Securities and the Bank's Interest Rate Swaps Contracts (IRS). Peso debt securities have average remaining maturity of 7 years hence, the risk weight ranges from 2.25% to 6.0%. Risk weight of two (2) IRS contracts is less than 1% respectively as these are expected to mature in six months' time. One IRS contract which is expected to mature in 4 years' time attracts a risk weight of 2.25%.

Currency: PESO							
PART IV.1d GENERAL MARKET RISK (Amounts in ₱0.000 million)							
Zone	Times Bands		Individual Positions		Risk Weight	Weighted Positions	
			Total				
	Coupon 3% or more	Coupon less than 3%	Long	Short		Long	short
1	1 month or less	1 month or less	-	-	0.00%	-	-
1	Over 1 month to 3 months	Over 1 month to 3 months	0.972	2,349.462	0.20%	0.002	4.699
1	Over 3 months to 6 months	Over 3 months to 6 months	8,202.231	2,033.211	0.40%	32.809	8.133
1	Over 6 months to 12 months	Over 6 months to 12 months	1.875	-	0.70%	0.013	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	1.476	-	1.25%	0.018	
2	Over 2 years to 3 years	Over 1.9 years to 2.8 years	67.405	-	1.75%	1.180	
2	Over 3 years to 4 years	Over 2.8 years to 3.6 years	2,198.396	2,116.721	2.25%	49.464	47.626
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	117.812	-	2.75%	3.240	
3	Over 5 years to 7 years	Over 4.3 years to 5.7 years	98.060	-	3.25%	3.187	
3	Over 7 years to 10 years	Over 5.7 years to 7.3 years	340.455	-	3.75%	12.767	
3	Over 10 years to 15 years	Over 7.3 years to 9.3 years	41.719	-	4.50%	1.877	
3	Over 15 years to 20 years	Over 9.3 years to 10.6 years	116.720	-	5.25%	6.128	
3	Over 20 years	Over 10.6 years to 12 years	158.583	-	6.00%	9.515	
3		Over 12 years to 20 years	-	-	8.00%	-	-
3		Over 20 years	-	-	12.50%	-	-
Total			11,345.704	6,499.394		120.200	60.458
Overall Net Open Position							59.745
Vertical Disallowance							5.576
Horizontal Disallowance							1.879
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							67.197

General Market Risk - Dollar

- The Bank's exposure on General Market Risk of the dollar denominated HFT portfolio is P23.879M brought about by Debt Securities and the Bank's Forward Contracts. Approximately 48% of Dollar Denominated debt securities have an average remaining maturity of less than 1 year hence the risk is less than 1%, 19% are in the up-to-3 years bucket with risk weight of 1.75% while 33% are distributed in the Over 4 years to over- 20 years bucket with risk weight ranging from 2.75% to 6%. On the other hand, the Bank's forward contracts have less than one year remaining maturity thus, attracting a risk weight of less than 1%.

PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)

Currency: USD

Maturity Method 1/

Zone	Times Bands		Individual Positions						Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Debt Securities & Debt Derivatives		Interest Rate Derivatives		Total				
			Long	Short	Long	Short	Long	Short		Long	Short
1	1 month or less	1 month or less	-	-	11,373.588	-	11,373.588	-	0.00%	-	-
	Over 1 month to 3 months	Over 1 month to 3 months	-	-	1,992.918	-	1,992.918	-	0.20%	3.986	-
	Over 3 months to 6 months	Over 3 months to 6 months	510.557	-	451.550	3,546.784	962.107	3,546.784	0.40%	3.848	14.187
	Over 6 months to 12 months	Over 6 months to 12 months	-	-	533.650	-	533.650	-	0.70%	3.736	-
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	-	-	-	-	-	-	1.25%	-	-
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	200.546	-	-	-	200.546	-	1.75%	3.510	-
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	-	-	-	-	-	-	2.25%	-	-
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	2.318	-	-	-	2.318	-	2.75%	0.064	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	7.051	-	-	-	7.051	-	3.25%	0.229	-
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	22.214	-	-	-	22.214	-	3.75%	0.833	-
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	290.209	-	-	-	290.209	-	4.50%	13.059	-
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	7.396	-	-	-	7.396	-	5.25%	0.388	-
	Over 20 years	Over 10.6 years to 12 years	21.253	-	-	-	21.253	-	6.00%	1.275	-
		Over 12 years to 20 years	-	-	-	-	-	-	8.00%	-	-
		Over 20 years	-	-	-	-	-	-	12.50%	-	-
Total			1,061.544	-	14,351.706	3,546.784	15,413.250	3,546.784		30.928	14.187
Overall Net Open Position											16.741
Vertical Disallowance											0.385
Horizontal Disallowance											6.753
TOTAL GENERAL MARKET RISK CAPITAL CHARGE											23.879

Foreign Exchange Exposures

- The Bank's exposure to Foreign Exchange Risk attracts a capital charge of ₱53.424M based on 8% risk weight. The exposure arises mostly from FX assets and FX liabilities in USD/PHP. The Bank also holds Third Currencies such as Euro, JPY, GBP, CAD and other currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES							
						Closing Rate USD/PHP:	41.08
Item	Nature of Item	Currency	In Million USD Equivalent				In Million Pesos
			Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
			Banks	Subsidiaries /Affiliates			
			1	2	3	4=1+2+3	5
A.	Currency						
A.4	Pound Sterling	GBP	0.132			0.132	5.422
A.5	Euro	EUR	0.696			0.696	28.590
A.6	Canadian Dollar	CAD	0.068			0.068	2.793
A.7	Australian Dollar	AUD	0.111			0.111	4.560
A.8	Singapore Dollar	SGD	0.267			0.267	10.968
A.9	Foreign currencies not separately specified above		0.691			0.691	28.385
A.10	Sum of net long positions						103.599
A.11	Sum of net short positions						'(667.805)
B.	Overall net open positions						667.805
C.	Risk Weight						8%
D.	Total Capital Charge For Foreign Exchange Exposures (B. times C.)						53.424
E.	Adjusted Capital Charge For Foreign Exchange Exposures (D. times 125%)						66.781
F.	Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						667.805
G.	Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (Part IV.3a, Item F)						-
H.	Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)						667.805

Equity Exposures

- The Bank's exposure to Equity Risk attracts a capital charge of ₽30.865M. The Bank's holdings are in the form of common stocks traded in the Philippine Stock Exchange thus it attracts an 8% risk weight both for specific and general market risk.

PART 14.2. EQUITY EXPOSURES (Amounts in ₽0.000 million)				
Item	Nature of Item	Positions	Stock Markets Philippines	Total
A.1	Common Stocks	Long	192.904	
		Short		
A.8	Options relating to individual equities	Short		
A.9	Others	Long		
		Short		
A.10	TOTAL (SUM of A.1 to A.9)	Long	192.904	
		Short		
B.	Gross (long plus short) positions (A.10)		192.904	
C.	Risk Weights		8%	
D.	Specific risk capital (B. times C.)		15.432	15.432
E.	Net long or short positions		192.904	
F.	Risk Weights		8%	
G.	General market risk capital charges (E. times F.)		15.432	15.432
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)			30.865
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)			38.581
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)			385.808

C. Business Development/Description of Significant Subsidiaries

PNB, 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 represent the Bank's significant subsidiaries:

Domestic Subsidiaries:

PNB Capital and Investment Corporation (PNB Capital), a wholly-owned subsidiary of the Bank, is an investment house with a non-quasi-banking license. It was incorporated on June 30, 1997 and commenced operations on October 8 the same year. Its principal business is to provide investment banking services which include debt and equity underwritings, private placements, loan arrangements, loan syndications, project financing and general financial advisory services, among others. PNB Capital is authorized to buy and sell, for its own account, securities issued by private corporations and the Philippine Government.

PNB Capital distributes its structured and packaged debt and equity securities by tapping banks, trust companies, insurance companies, retail investors, brokerage houses, funds and other entities that invest in such securities. It is licensed to operate as an investment house by the SEC with the Certificate of Registration No. 01-2008-00234. It renewed its license on November 27, 2012.

The main competitors of PNB Capital 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 Corporation. 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. It also leverages its synergies with the Bank to tap the latter's funding capability and other banking services. Moreover, PNB Capital depends on services provided by a number of the Bank's departments, including Human Resources, Legal, Risk Management, Compliance, Security and Maintenance, among others.

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 risks are addressed by:

- ensuring that the staff is 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.

As of 31 December 2012 and 31 March 2013, total assets of PNB Capital were ₱584.8 million and ₱556.3 million, respectively, while total capital was ₱436.0 million and ₱490.7million, respectively. For the year ended 31 December 2012 and quarter ended 31 March 2013, net income was ₱35.8 million and ₱58.7 million, respectively.

PNB Forex, Inc. (PFI), a wholly-owned subsidiary of the Bank which was incorporated on October 13, 1994 as a trading company, is 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 in foreign currency trading as of January 1, 2006. It currently derives 100% of its revenues from interest income earned from the cash/funds held by the corporation.

PNB Holdings Corporation (PHC), formerly Philippine Exchange Co., Inc., is a wholly-owned subsidiary of the Bank 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 General Insurers Co., Inc. (PNB Gen) is a wholly-owned subsidiary of PNB Holdings Corporation was established in 1991. It 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 ₱312.6 million, one of the highest in the industry. Its net worth is ₱1.407 billion as of December 31, 2012 after declaring ₱200 million in dividends in 2007. Premium production stood at ₱1.416 billion, so far the highest level attained by PNB Gen in years, breaking the ₱1.0 billion production which classifies PNB Gen as a large insurance company. As of 31 March 2013, total assets and total capital of PNB Gen was at ₱5.4 billion and ₱1.5 billion, respectively. As of the same period, its net income stood at ₱80 million. PNB Gen is also one of the most profitable companies in the industry with an average ROE of 5.03%..

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 the Bank 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.

It ranked 31st among the 132 active members of the Philippine Stock Exchange with a 0.51% market share in terms of value turn-over as of December 31, 2012. The areas of competition have been identified as commission rate and quality of service. PNBSI's main source of income is the commission earned from its stockbrokerage business which accounted for 34% of its total revenues in 2012 with a client base of approximately 7,276. As of 31 March 2013, total assets , total capital and net income were ₱292.6 million ₱242.4 million and ₱12.1 million respectively.

Relative to its competitors, PNBSI's strength lies in the fact that it is backed up by PNB, a universal bank with consolidated resources of ₱331.0 billion as of December 31, 2012.

Inherent to all engaged in the stockbrokerage business, PNBSI is exposed to risks like operational risk, position risk, counterparty risk and large exposure risk. To address, identify, assess and manage the risks involved, PNBSI 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.

Japan-PNB Leasing and Finance Corporation (Japan-PNB), formerly PF Leasing and Finance Corporation, was incorporated on April 23, 1996 under the auspices of the Provident Fund of the Bank. PF Leasing was largely inactive until it was used as the vehicle for the joint venture between the Bank (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. Japan-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 comes from peso leases and loans. All the leasing and lending activities of Japan-PNB are in the domestic market.

Effective January 31, 2011, PNB increased its equity interest in Japan-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 interests, respectively. IBJL remains as an active joint venture partner with a 10% equity interest.

As of 31 December 2012, J-PNB Leasing had an authorized capital of ₱150.0 million, represented by 1,500,000 shares with a par value of ₱100 per share, which are fully subscribed and paid up. As of 31 March 2013, J-PNB's total assets and total equity stood at ₱3.4billion and ₱563.8 million, respectively. Its net income for the year ended December 2012 and for the quarter ended 31 March 2013 were ₱60.8 billion and ₱21.7 billion, respectively

Japan-PNB Equipment Rentals Corporation is a wholly-owned subsidiary of Japan-PNB Leasing and Finance Corporation, which in turn is 90% owned by PNB. It was incorporated in the Philippines on July 3, 2008 as a rental and leasing company and started commercial operations on the same date. It is engaged in the business of renting or leasing all kinds of real and personal properties.

Allied Savings Bank (ASB), formerly First Malayan Development Bank, is a thrift bank registered with the SEC and a wholly-owned subsidiary of ABC. It was renamed First Allied Development Bank but, after obtaining the license to operate as a savings bank in January 17, 1996, it was again renamed to First Allied Savings Bank, then again to Allied Savings Bank in July 10, 1998. ASB is authorized by the BSP to engage in thrift banking business by offering deposit products, loans and trade finance. On January 6, 1996, ASB was granted a foreign currency deposit license by the Monetary Board of the BSP. In addition to its head office at the Allied Bank Center, 6754 Ayala Avenue in Makati City, as of December 31, 2012, ASB has 27 branches throughout Metro Manila and Southern Tagalog, Northern Tagalog, Bicol Region, Western Visayas and Northern Mindanao. Its main businesses are deposit products, remittance, loans, and trade finance.

PNB Life Insurance Inc. traces its roots from New York Life Insurance Philippines, Inc. (NYLIP) as a Philippine subsidiary of US-based New York Life International, LLC and commenced operations in August 2001. Its main business is insurance. In 2003, ABC gained minority interest in NYLIP offering bancassurance to the bank's branches nationwide. In 2007, New York Life International, LLC divested its interest in NYLIP in favor of Allied Bank and its principals, with Allied Bank holding 75%.

In May 2008, the company changed its corporate name to PNB Life Insurance, Inc. reflecting the change in ownership and in expectation of the impending merger of Allied Bank and PNB, signifying the company's deeper appreciation of the Philippine market and the dynamism of the Filipino consumer. In October 2009, PNB acquired a 5% stake in PNB Life, paving the way for the expansion of its bancassurance market.

In 2011, the company strengthened its presence in Luzon with the opening of two regional business centers in Pampanga and La Union to serve as business hubs for Central and North Luzon, respectively. It also launched Asian Summit, its first capital guaranteed unit-linked product which resulted in historic premiums and hit the billion mark. In 2012, it opened the Zamboanga Regional Business Center to serve as business hub in the Zamboanga Peninsula region.

As a 100% Filipino owned and managed company, PNB Life is now even more dedicated to strengthen and broaden its role in the financial services market. Today, PNB Life offers innovative financial solutions through a variety of platforms, through its bancassurance with Allied Bank and PNB, and alternative distribution channels.
Ranked among the top life insurance companies in the country in terms of premium income and a leading provider of variable life products, PNB Life remains steadfast in providing new beginnings in people's lives and aims to be the dominant provider of financial security to Filipinos worldwide.

Foreign Subsidiaries:

PNB International Investment Corporation (PNB IIC), formerly Century Bank Holding Corporation, a wholly-owned subsidiary of the Bank, 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 Centers, 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, 2012, PNB RCI has 29 branches in 9 states. PNB RCI owns PNB RCI Holding Company, Ltd. which was incorporated in California on August 18, 1999 and PNB Remittance Company, Nevada (PNB RCN) which was incorporated in Nevada on June 12, 2009. PNB RCN is engaged in the business of transmitting money to the Philippines. 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 2012.

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 while PNBRCN is regulated by the Nevada Department of Business and Industry – Division 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 only a holding company. PNB RCI, PNB RCN and PNB RCC have numerous competitors from local U.S. 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 the Bank, is registered with the Registrar of Companies in Hong Kong. On July 1, 2010, PNB Global took the remittance business of PNB Remittance Center, Ltd. with the former as the surviving entity. It now operates as a money lender and remittance company. As of December 31, 2012, PNB Global maintains seven (7) offices in Hong Kong. It is regulated by the Customs and Excise Department of Hong Kong.

PNB Global's major competitors are the remittance subsidiaries of Metrobank, BDO, RCBC, BPI, and DBP and non-bank competitors such as Frankie Money Changer, Czarina, Kabayan, I-Remit and LBC. Effective August 2012, PNB Global launched its tie-up arrangement with Western Union strengthening its cash pick-up services throughout the Philippines.

PNB (Europe) Plc (PNBE) was originally set-up as a PNB London Branch in 1976. In 1997, it was converted into PNB (Europe) Plc, as a wholly-owned subsidiary of the

Bank, incorporated in the United Kingdom with a full banking license. It is also authorized to provide cross-border services to 18 member states of the European Economic Area (EEA). In 2007, PNBE opened its branch in Paris, France which is engaged in remittance services. PNBE 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, PNBE applied for an Authorized Payment Institution (API) license in the United Kingdom in November 2011. This application is still currently being processed by the Financial Services Authority.

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

PNB Italy, SpA, a wholly-owned subsidiary of the Bank, was incorporated in 1994 as a Financial Intermediary (FI). On July 17, 2012, PNB Italy's license was converted into a Payment Institution. It is authorized to do money transfer services. Its main office is located in Rome while its branches are situated in Milan and Florence. It also has 19 individual agents and 2 remittance partners. PNB Italy is regulated by the 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, and NYBR.

Allied Commercial Bank (ACB), formerly known as Xiamen Commercial Bank and 90% owned by PNB (post-merger with Allied Bank) , was established in Xiamen in September 1993 as a foreign- owned bank. A branch in Chongqing was established in 2003. As approved by the China Banking Regulatory Commission, ACB may offer foreign currency denominated banking products to foreign companies; foreign-funded companies in China, representative offices of foreign companies including those of Hong Kong, Macau and Taiwan; foreign nationals including compatriots from Hong Kong, Macau and Taiwan. These products are as follows: deposits, short, medium and long term loans, discounting and acceptance of notes and bills, trading of government bonds, treasury bills and non-stock securities, letter of credit services and guarantees, domestic and international settlements, foreign exchange trading and brokering, foreign currency conversion, inter-bank call loans, credit cards, safety deposit boxes, credit information services, and other banking business approved by the China Banking Regulatory Commission.
It may also offer the foreign currency denominated banking products to non foreign-funded companies in China, such as deposits from proceeds of loans, export settlements, import financing, and remittances.

Allied Banking Corporation (Hong Kong) Limited (ABCHKL), a private limited company incorporated in Hong Kong in 1978, and is licensed as a restricted license bank under the Hong Kong Banking Ordinance. It is being regulated by the Hong Kong Monetary Authority. A branch in Kowloon was established in 9 September

1981. ABCHKL was Allied Bank’s first majority-owned overseas subsidiary at 51% ownership. It provides a full range of commercial banking services predominantly in Hong Kong, which include lending and trade financing, documentary credits, participation in loans syndications and other risks, deposit taking, money market and foreign exchange operations, money exchange, investment and corporate services. ABCHKL's core revenue primarily comprises interest income from its lending activities complemented with fees and commissions from other fee-based services. ABCHKL has a wholly owned subsidiary, ACR Nominees Limited, a private limited company incorporated in Hong Kong, which provides management and corporate services to its customers. It also holds and operates one branch office in Tsimshatsui, Kowloon. In addition to its normal banking services, ABCHKL acts and is licensed as an insurance agent. Its main businesses are property mortgage loans, trade finance, deposits (not less than hk$500,000), remittances, foreign exchange and secretarial and nominee services.

Allied Bank Philippines (UK) Plc. (ABUK)**,** a wholly-owned subsidiary of ABC, formally commenced operations in 1992 after functioning as Allied Bank's representative office in the 1970s and as a branch in the mid 1980s. ABUK was the first Philippine private commercial bank in London to be granted the status of licensed deposit taker by the Bank of England under the Financial Services and Markets Act 2000. It is being regulated by the Financial Services Authority. ABUK mainly operates to facilitate trade between the Philippines and the United Kingdom, service the banking requirements of the growing Filipino population in the United Kingdom and other European countries, and promote foreign investments to the Philippines. It has remittance partner banks in Germany, Ireland and Luxembourg. Its main business are remittances, deposit taking (GBP and USD savings accounts), passporting, advisory and confirmation of letters of credit (LC) opened by Allied Bank in favor of beneficiaries located in the UK, and when nominated, ABUK acts as paying and reimbursing bank for LCs opened by Allied Bank.

DESCRIPTION OF PROPERTY

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 by the President Diosdado P. Macapagal Boulevard and on the north 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 offices are presently leased to various companies/private offices. The said property is in good condition and is not subject to liens and encumbrances.

Please Refer to Exhibit I for the list of Bank-owned properties as of 31 March 2013.

The Bank leases the premises occupied by some of its branches. Lease contracts are generally for periods ranging from 1 to 25 years and are renewable upon mutual agreement of both parties under certain terms and conditions.

Please refer to Exhibit II for the list of the Bank's branches that are under lease as of 31 March 2013 .

The Bank does not have any current plans to acquire any property within the next twelve (12) months.

LEGAL PROCEEDINGS

The Bank and some of its subsidiaries are parties to various legal proceedings which arose in the ordinary course of 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.

MARKET PRICE AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

All issued PNB common shares are listed and traded on 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 2013 are:

	2011		2012		2013	
	High	Low	High	Low	High	Low
Jan – Mar	64.25	42.05	75.95	56.25	107.60	87.40
Apr – Jun	68.60	56.00	77.80	67.40		
Jul – Sep	65.20	41.00	76.55	68.75		
Oct – Dec	60.00	43.00	96.20	70.20		

The trading price of each PNB common share as of May 31, 2013 was ₱96.00.

Holders

There were 30,790 and 30,809 shareholders of common stock as of January 31, 2013 and February 9, 2013, respectively. The top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each as of 31 January 2013 are as follows:

BEFORE THE MERGER (As of January 31, 2013)			
No.	Stockholders	Number of Shares	Percentage
1	PCD Nominee Corporation (Filipino)	101,288,487	15.2946940937
2	PCD Nominee Corporation (Non-Filipino)	70,312,124	10.6172227418
3	Leadway Holdings, Inc.	46,495,880	7.0209387294
4	Pioneer Holdings Equities, Inc.	24,386,295	3.6823624594
5	Multiple Star Holdings, Corporation	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 Corporation	18,522,961	2.7969913521
10	Fil-Care Holdings, Inc.	18,119,076	2.7360041885
11	Fairlink Holdings Corporation	17,945,960	2.7098634460
12	Purple Crystal Holdings, Inc.	17,374,238	2.6235326757
13	Kentron Holdings & Equities Corporation	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 Corporation	12,377,119	1.8689611670

Applying the Exchange Ratio, the number of common shareholders was expected to increase to 30,809 as of 9 February 2013. The top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each as of 28 February 2013 are as follows:

AFTER THE MERGER (As of February 28, 2013)			
No.	Stockholders	Number of Shares	Percentage
1.	Key Landmark Investments, Ltd.	94,883,360	8.7352812409
2.	PCD Nominee Corporation (Filipino)	94,413,549	8.6920288601
3.	PCD Nominee Corporation (Non-Filipino)	77,542,161	7.1387921377
4.	True Success Profits Ltd.	58,389,760	5.3755576867
5.	Caravan Holdings Corporation	58,389,760	5.3755576867
6.	Solar Holdings Corporation	58,389,760	5.3755576867
7.	Prima Equities & Investments Corporation	51,091,040	4.7036129759
8.	Leadway Holdings, Inc.	46,495,880	4.2805670915
9.	Infinity Equities, Inc.	43,792,320	4.0316682650
10.	Pioneer Holdings Equities, Inc.	24,386,295	2.2450843356
11.	Multiple Star Holdings, Corporation	21,925,853	2.0185677700
12.	Donfar Management Ltd.	21,890,077	2.0152741111
13.	Uttermost Success, Ltd.	21,523,715	1.9815455932
14.	Mavelstone Int'l Ltd.	21,055,186	1.9384112376
15.	Kenrock Holdings Corporation	18,522,961	1.7052860876
16.	Fil-Care Holdings, Inc.	18,119,076	1.6681030761
17.	Fairlink Holdings Corporation	17,945,960	1.6521654349
18.	Purple Crystal Holdings, Inc.	17,374,238	1.5995307847
19.	Kentron Holdings & Equities Corporation	17,343,270	1.5966797665
20.	Fragile Touch Investment, Ltd.	16,157,859	1.4875468429

Generally, there was a reduction on the ownership percentage of the stockholders of the bank as a result of the issuance of the additional PNB common shares.

(i) Before the issuance of additional shares, the bank had 3 stockholders owning more than 5% of the bank's capital stock, two of whom were the PCD Nominee Corporation. After the issuance, the stockholders who owned more than 5% of the bank's capital stock increased to 6.

(ii)The directors own only minimal shares of stock in the bank. The percentage of ownership of Director Lucio Tan, however, has increased from 10 common shares to 12,907,060 (or 1.1882673537%) due to his Allied Bank common shares which were converted to PNB common shares.

(iii)All directors and officers as a group also own minimal shares of stock in the bank. From 0.0254221273% as of January 31, 2013, the group (including the additional directors and Allied Bank Senior Officers as a result of the merger of PNB and Allied Bank) owned 1.2096864475% of the total capital stock of the bank as of February 28, 2013.

(iv) As a result of the issuance of additional shares, the percentage owned by foreign stockholders had increased by almost 5% from 24.77805% in January 31, 2013 to 29.88311% as of February 28, 2013. The public ownership, on the other hand, has decreased from 31.15% in January 31, 2013 to 18.99% in February 28, 2013.

Dividends

The Bank has not declared any cash dividends on its common shares for the fiscal years 2011 and 2012 nor in the first quarter of 2013.

The Bank's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, the Bank's declaration of dividends, including computation of unrestricted retained earnings, is subject to compliance with certain rules and regulations prescribed by the Bangko Sentral ng Pilipinas (BSP) as provided under the Manual of Regulations for Banks (MORB).

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 SRC. The new shares issued pursuant to the Merger are the subject of the instant Offering.

With respect to the absorbed company, Allied Bank, it did not have any recent sales of unregistered or exempt securities nor recent issues of securities constituting exempt transactions in the last three (3) years.

Computation of Public Ownership

As of December 31, 2012, PNB's Public Ownership Level was at 31.15% which is above the minimum ten percent (10%) public ownership requirement for a listed company, in compliance with the requirement of the Philippine Stock Exchange (PSE).

Applying the Exchange Ratio, the public ownership level as of 31 May 2013 was at 19.24 %, still above the minimum public ownership requirement of the PSE.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements of PNB and its subsidiaries (the "Group") have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

First-Time Adoption of PFRS

The financial statements (FS) for the year ended December 31, 2012 are the first FS the Group has prepared in accordance with PFRS. For periods up to and including the year ended December 31, 2011, the Group prepared its financial statements in accordance with generally accepted accounting principles in the Philippines for banks (Philippine GAAP for banks).

Accordingly, the Group has prepared financial statements which comply with PFRS applicable for periods ending on or after December 31, 2012, together with the comparative periods as of and for the year ended December 31, 2011 and 2010, as described in the summary of significant accounting policies. The Group applied PFRS 1, First-Time Adoption of PFRS, in preparing the accompanying financial statements. In preparing these financial statements, the Group's opening statement of financial position was prepared as of January 1, 2010, the Group's date of transition to PFRS.

Philippine GAAP for banks mainly differs from PFRS on the reclassification as permitted by the BSP for prudential regulation and the SEC for financial reporting purposes, of certain investments in Republic of the Philippines (ROP) credit-linked notes that were permitted to be reclassified out of Financial Assets at FVPL or AFS investments to Loans and Receivables or HTM investments without bifurcating the embedded derivatives from the host instrument. Prior to the adoption of PFRS, HTM investments of the Group include investments in ROP credit-linked notes where the related embedded derivatives have not been bifurcated.

Upon the adoption of PFRS, the Group bifurcated the credit derivatives embedded in ROP credit-linked notes classified as HTM Investments as required by Philippine Accounting Standards (PAS) 39, Financial Instruments: Recognition and Measurement. The effect of this adjustment resulted in the recognition of a derivative asset (included in Financial Assets at FVPL) amounting to ₱64.0 million and derivative liability (included in Financial Liability at FVPL) amounting to ₱16.2 million, decrease in HTM Investments and increase in Surplus amounting to ₱12.5 million and ₱35.4 million, respectively, as of January 1, 2010.

In 2011, the Parent Company divided the credit derivatives when it reclassified the HTM investments to AFS investments. Had PNB bifurcated the embedded derivatives prior to the reclassification date of the HTM investments to AFS investments, net unrealized gain on AFS investments in 2011 should have been reduced by ₱ 30.5 million. The transition from Philippine GAAP for banks to PFRS has not had a material impact on the statements of cash flows.

Estimates under PFRS at transition date

The estimates as at January 1, 2010 are consistent with those made for the same dates in accordance with Philippine GAAP for banks.

Exemptions from other PFRSs

Under PFRS 1, an entity may elect to use one or more exemptions contained in PFRS 1 which are meant to ease the burden of first-time adoption that might otherwise occur when applying all PFRSs fully retrospectively. The following exemptions were applicable to the Group:

- ***Employee benefits***

  PFRS 1 permits entities to recognize all actuarial gains and losses at the date of transition to PFRS in the opening statement of financial position retained earnings. This election is available regardless of which policy the entity chooses for recognition of actuarial gains and losses after first time adoption (use of a "corridor" approach). However, past service costs are not covered by this exemption.

  At transition date, the Group has not applied this exemption.

- ***Cumulative translation difference***

  There is an exemption from calculating the cumulative translation differences on the translation of the net assets of foreign subsidiaries at the date of transition. If elected, the cumulative translation differences for all foreign operations are deemed to be zero at the transition date.

  At transition date, the Group has not applied this exemption.

Prior Period Adjustments

Sale of Non-Performing Assets to Special Purpose Vehicle (SPV) companies

To take advantage of incentives under Republic Act (RA) No. 9182, The Special Purpose Vehicle (SPV) Act of 2002, and at the same time improve its chances of recovering from its non-performing assets (NPAs), PNB sold certain NPAs to SPV companies. In accordance with regulatory accounting policies (RAP) prescribed by the BSP for banks and financial institutions availing of the provisions of RA No. 9182, the losses from the sale of the NPAs to the SPV companies were deferred and are being amortized over a ten-year period. As of January 1, 2012, 2011 and 2010, the deferred losses from the sale of NPAs to SPV companies amounted to ₱ 2.6 billion, ₱ 3.1 billion and ₱ 3.7 billion, respectively.

In 2006 and 2007, PNB sold Opal Portfolio Investments (SPV-AMC), Inc. (OPII) and certain NPAs, under a transaction that qualified and was approved by the BSP, as a legal true sale. The losses from the sale of the NPAs were again deferred by PNB. As of January 1, 2012, 2011 and 2010, the deferred losses from the sale of the NPAs to OPII amounted to ₱ 2.1 billion, ₱ 2.5 billion and ₱ 2.8 billion, respectively.

In 2012, PNB restated its 2011 and 2010 financial statements to recognize the losses from the sale of NPAs to SPVs in the years the NPAs were sold as required by PFRS.

Consolidation of Opal Portfolio Investments (SPV-AMC), Inc.

As discussed above, PNB sold OPII and certain NPAs, under a transaction that qualified and was approved by the BSP, as a legal true sale. OPII holds the NPAs sold by PNB. 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 accounts of OPII should have been consolidated into the Group's accounts. Prior to 2012, the accounts of OPII were not consolidated.

In 2012, the Group restated its 2011 and 2010 financial statements to consolidate the accounts of OPII. The consolidation of the accounts of OPII into the Group accounts resulted in an increase in other assets, other liabilities and non-controlling interests by ₱ 514.0 million, ₱ 29.6 million and ₱ 484.4 million as of January 1, 2012; ₱ 493.1 million, ₱ 86.6 million and ₱ 406.5 million as of January 1, 2011; and ₱ 1.3 billion, ₱ 1.3 billion and (₱ 39.7 million) as of January 1, 2010, respectively. Other income, other expense, provision for income tax and income attributable to non-controlling interests increased by ₱ 762.8 million, ₱ 109.2 million, ₱ 33.0 million and ₱ 77.9 million in 2011 and ₱ 942.3 million, ₱ 95.5 million, ₱ 157.6 million and ₱ 446.2 million in 2010, respectively.

The following summarizes the specific impact of the first time adoption of PFRS and the prior period adjustments.

Surplus (Deficit) - Consolidated	Other Financial Statement Item Affected	January 1 2012	2011	2010
As previously reported		6,947,384	3,091,554	425,365
To recognize fair value changes of credit derivatives embedded in credit linked notes	Financial Assets at FVPL	–	85,621	35,353
To reverse gain from reclassification of credit linked notes from HTM investments to AFS investments	Unrealized gain on AFS	30,476	–	–
As restated but before prior period adjustments		6,977,860	3,177,175	460,718
To write-off deferred losses on NPAs sold to OPII	Other Assets - Deferred Charges	(2,141,919)	(2,466,434)	(2,774,663)
To write-off deferred losses on NPAs sold to other SPV companies	Other Assets - Deferred Charges	(2,589,728)	(3,125,611)	(3,661,494)
		2,246,213	(2,414,870)	(5,975,439)

Surplus (Deficit) - Parent Company	Other Financial Statement Item Affected	January 1 2012	2011	2010
As previously reported		5,107,645	1,206,080	(1,553,712)
To recognize fair value changes of credit derivatives embedded in credit linked notes	Financial Assets at FVPL	–	85,621	35,353
To reverse gain from reclassification of credit linked notes from HTM investments to AFS investments	Unrealized gain on AFS	30,476	–	–
As restated but before prior period adjustments		5,138,121	1,291,701	(1,518,359)
To write-off deferred losses on NPAs sold to OPII	Other Assets - Deferred Charges	(2,141,919)	(2,466,434)	(2,774,663)
To write-off deferred losses on NPAs sold to other SPV companies	Other Assets - Deferred Charges	(2,589,728)	(3,125,611)	(3,661,494)
		406,474	(4,300,344)	(7,954,516)

	Consolidated		Parent Company	
Net Income	2011	2010	2011	2010
As previously reported	3,872,552	2,691,728	3,909,834	2,764,942
To recognize fair value changes of credit derivatives embedded in credit linked notes	(55,145)	50,268	(55,145)	50,268
As restated but before prior period adjustments	3,817,407	2,741,996	3,854,689	2,815,210
To reverse amortization of deferred losses	860,398	844,112	860,398	844,112
To recognize net income of SPV companies	77,887	446,179	–	–
As restated	4,755,692	4,032,287	4,715,087	3,659,322

Note : For Changes in Accounting Policies and Disclosures effective as of January 1, 2013 , please refer to page 3 of the PNB March 31, 2013 Audited Financial Statements attached hereto**.**

1. Financial Condition

The following are the discussions on the consolidated financial condition and results of operations of the Group based on the Audited Financial Statements as of and for the quarters ended March 31, 2013 and 2012.

<u>March 2013 vs. March 2012</u>

- The Group's consolidated assets expanded to ₱550.4 billion as of March 31, 2013, ₱242.5 billion or 78.7% higher compared to ₱307.9 billion as of March 31, 2012 was mainly attributed to the merger of the Philippine National Bank (PNB) and Allied Banking Corporation (ABC). Significant changes (more than 5%) in assets were registered in the following accounts:

    1. Cash and other Cash Items grew by 90.6% or ₱3.7 billion, from ₱4.2 billion to ₱7.9 billion, attributable to ABC accounts which were brought in to the merged Bank.

    2. Due from Bangko Sentral ng Pilipinas increased by 115.2% or ₱44.6 billion, from ₱38.7 billion to ₱83.3 billion, mainly due to ABC accounts which were brought in to the merged Bank.

    3. Due from Other Banks increased by 250.9% or ₱10.7 billion, from ₱4.3 billion to ₱15.0 billion, pertains to ABC accounts which were brought in to the merged Bank.

    4. Interbank Loans Receivable increased by 112.8% or ₱4.4 billion, from ₱3.9 billion to ₱8.3 billion, in view of higher interbank lending transactions to various banks.

    5. Securities Held Under Agreements to Resell went up by 127.3 % or ₱11.2 billion, from ₱8.8 billion to ₱20.0 billion, as lending transactions with BSP increased. Securities Held under Agreement to Resell includes government securities purchased under reverse purchase with BSP.

    6. Financial Assets at Fair Value Through Profit or Loss was higher by 108.5% or ₱5.1 billion, from ₱4.7 billion to ₱9.8 billion, attributed mainly to the purchase of various investment securities in the current period.

    7. Loans and Receivables grew a respectable 86.3% or ₱111.8 billion, from ₱129.5 billion to ₱241.4 billion, attributable to the ₱87.9 billion total loans brought in by ABC to the merged Bank, more than 80% of which are corporate

accounts.

8. Available for Sale Investments increased by 47.3% or ₱32.7 billion, from ₱69.0 billion to ₱101.6 billion, due to net acquisition of various government securities as well as AFS securities holdings of ABC.

9. Property and Equipment increased by 38.7% or ₱6.4 billion, from ₱16.6 billion to ₱23.0 billion on account of the ABC PPE accounts.

10. Investment in Subsidiaries and Associate was down by 99.8% or ₱2.9 billion in view of the increase in ownership of Allied Commercial Bank (ACB) from 39% to 90% after the merger, thus ACB is now consolidated line-by-line in the financial statements.

11. Investment Properties increased by 19.48% or ₱3.1 billion, from ₱15.9 billion to ₱19.0 billion, mainly from the ROPA accounts of ABC.

12. Other Assets increased by ₱12.3 billion, from ₱7.7 billion to ₱20.0 billion was mainly accounted for by ABC assets including ₱10.4 billion Goodwill representing the difference between the fair value of the net assets and liabilities of ABC market value of PNB shares issued in line of merger. Goodwill however is still tentative since the Parent Company is still in the process of determining the fair values of ABC's net identifiable assets and liabilities and the total acquisition/transaction related costs.

- The consolidated liabilities increased by 73.1% or ₱195.9 billion from ₱268.0 billion as of March 31, 2012 to ₱463.9 billion as of March 31, 2013. Major changes in liability accounts were as follows:

  - Deposit Liabilities increased by 73.7% or ₱167.5 billion, from ₱227.1 billion to ₱394.6 billion, attributed mainly to ABC deposit balances. Demand, savings and time deposits increased by ₱53.9 billion, ₱85.8 billion and ₱27.8 billion, respectively.

  - Bills and Acceptances Payable increased by 54.0% or ₱5.3 billion, from ₱9.8 billion to ₱15.1 billion, primarily due to various borrowings from other banks.

  - Subordinated Debt increased by 54.0% or ₱3.5 billion, from ₱6.4 billion to ₱9.9 billion to finance asset growth and strengthen the Bank's capital base.

  - Other liabilities increased by 121.8% or ₱15.7 billion, from ₱12.9 billion to ₱28.6 billion, mainly due to the accrual of provision for loss on certain court cases, additional insurance liability of the Bank's subsidiary PNB Gen. Insurers, increment in accounts payable and ABC balances.

- The consolidated equity stood at ₱86.5 billion as of March 31, 2013, up by ₱46.6 billion from ₱39.9 billion, as of March 31, 2012. The increase in capital accounts was mainly accounted for by the ₱16.9 billion increase in capital stock, ₱24.5 billion increase in capital paid in excess of par value coupled by the ₱5.0 billion net income for the year ended December 31, 2012.

2012 vs. 2011

The following are the discussions on the consolidated financial condition and results of operations of the Group based on the Audited Financial Statements as of and for the years ended December 31, 2012, 2011 (as restated) and 2012 (as restated).

- The Group's consolidated assets expanded to ₱331.0 billion as of December 31, 2012, ₱18.9 billion or 6.1% higher compared to ₱312.1 billion as of December 31, 2011. Significant changes (more than 5%) in assets were registered in the following accounts:

    - Loans and Receivables grew a respectable 14.6% or ₱18.5 billion, from ₱126.2 billion to ₱144.7 billion, attributable mainly to new loan releases during the period.

    - Available for Sale Investments increased by ₱14.7 billion, from ₱52.3 billion to ₱67.0 billion, attributed mainly to purchases of government securities.

    - Investment Properties decreased by ₱1.6 billion, from ₱16.1 billion to ₱14.5 billion, primarily due to sale of foreclosed properties and provision for loss on a certain property which was destroyed by fire.

    - Due from Other Banks decreased by ₱2.4 billion, from ₱6.4 billion to ₱4.0 billion.

    - Financial Assets at Fair Value Through Profit or Loss was lower by ₱2.9 billion, from ₱6.9 billion to ₱4.0 billion, attributed mainly to the sale of various investment securities.

    - Interbank Loans Receivable decreased by ₱5.6 billion, from ₱17.1 billion to ₱11.5 billion, in view of lower interbank lending.

    - Other Assets declined by ₱0.9 billion, from ₱3.9 billion to ₱3.0 billion

- The consolidated liabilities increased by ₱14.2 billion from ₱277.1 billion as of December 31, 2011 to ₱291.3 billion as of December 31, 2012. Major changes in liability accounts were as follows:

    - Deposit Liabilities increased by ₱3.4 billion, from ₱237.5 billion to ₱240.9

billion, attributed mainly to the ₱8.1 billion increase in savings deposit, partly offset by the ₱1.7 billion and ₱3.0 billion reductions in demand and time deposits.

- Bills and Acceptances Payable increased by ₱4.6 billion, from ₱8.5 billion to ₱13.1 billion, mainly due to BSP rediscounting and various borrowings from other banks.

- Subordinated Debt increased by ₱3.5 billion, from ₱6.4 billion to ₱9.9 billion. On May 9, 2012, the Bank issued ₱3.5 billion worth of Unsecured Subordinated Notes to finance asset growth and strengthen the Bank's capital base.

- Other liabilities increased by ₱2.8 billion, from ₱14.0 billion to ₱16.8 billion, mainly due to the accrual of provision for loss on certain court cases, additional insurance liability of the Bank's subsidiary PNB Gen. Insurers, and increment in accounts payable.

• The consolidated equity stood at ₱39.7 billion as of December 31, 2012, up by ₱4.7 billion from ₱35.0 billion, as of December 31, 2011. The increase in capital accounts was mainly accounted for by the ₱5.0 billion net income for the year ended December 31, 2012. As mentioned in item 1 above, Surplus as of December 31, 2012 and December 31, 2011 are already net of SPV losses previously being deferred in accordance with the SPV Law.

<u>2011 vs. 2010</u>

• The Group's consolidated assets amounted to ₱312.1 billion as of December 31, 2011, ₱15.0 billion or 5.0% higher compared to ₱297.1 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 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. Securities Held under Agreement to Resell includes government securities purchased under reverse purchase with BSP.

- Interbank Loans Receivable grew 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 ₱9.1 billion, from ₱16.0 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.

- 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 ₱0.6 billion, from ₱4.5 billion to ₱3.9 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 and Accrued Taxes, Interest and Other Expenses decreased by ₱3.5 billion and ₱0.3 billion, from ₱12.0 billion to ₱8.5 billion, and from ₱4.3 billion to ₱4.0 billion, respectively.

  - 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 ₱35.0 billion as of December 31, 2011, up by ₱6.6 billion from ₱28.4 billion as of December 31, 2010. The increase in capital accounts came primarily from the ₱4.7 billion annual net income and ₱1.9 billion recovery from net unrealized losses on mark to market valuation of available for sale.

2. Results of Operations

March 2013 vs. March 2012

- The Group posted a ₱2.8 billion consolidated net income for the first quarter of the year, 120.2% or ₱1.6 billion higher than the ₱1.3 billion net income for the same period last year. The Bank attributes its improved performance to the country's strong and favorable economic environment that creates numerous business opportunities and which drove a more robust trading and investment market which increased treasury income for the Bank.

- Net interest income stood at ₱2.6 billion in March 31, 2013, higher by 40.7% or ₱0.7 billion compared to the net interest income for the same period last year of ₱1.9 billion. Interest income increased by 39.2% or ₱1.2 billion, from ₱2.9 billion to ₱4.1 billion. Interest expense increased also by 36.6% or ₱0.4 billion, from ₱1.1 billion to ₱1.5 billion.

- Net service fees and commission income was slightly increased at ₱0.6 billion in March 31, 2013 compared to ₱0.5 billion reported for the same period last year.

- Fee-based and other income increased by ₱1.7 billion for the period ended March 31, 2013 to ₱4.4 billion, from ₱2.7 billion for the same period last year. The increase came from gains on Trading and investment securities which expanded by ₱1.5 billion, from ₱1.8 billion to ₱3.3 billion.

- Administrative and other operating expenses was higher by 18.8% or ₱0.7 billion, from ₱3.4 billion to ₱4.1 billion. Increases were registered in Compensation and Fringe Benefits by ₱0.4 billion, Taxes and Licenses by ₱0.1 billion and Other Miscellaneous Expenses by ₱0.2 billion.

- Provision for income tax was at ₱0.7 billion and ₱0.2 billion for the periods ended March 31, 2013 and March 31, 2012, respectively.

2012 vs. 2011

- The Group posted a ₱5.0 billion consolidated net income for the year ended December 31, 2012, 5.7% higher than the ₱4.8 billion net income for the same period last year.

- Net interest income stood at ₱7.0 billion in 2012, slightly lower by ₱0.2 billion compared to the net interest income for the same period last year. Interest income declined by ₱1.1 billion, from ₱12.5 billion to ₱11.4 billion. Interest expense decreased by ₱0.9 billion, from ₱5.3 billion to ₱4.4 billion.

- Net service fees and commission income was slightly lower at ₱1.9 billion in 2012 compared to ₱2.1 billion reported for the same period last year.

- Fee-based and other income increased by ₱0.7 billion for the year ended December 31, 2012 to ₱8.7 billion, from ₱8.0 billion for the same period last year. The increase came from gains on Trading and investment securities which expanded by ₱1.5 billion, from ₱3.6 billion to ₱5.1 billion, mainly attributed to gain on sale/redemption of Available for Sale Securities.

- Administrative and other operating expenses was lower by ₱0.1 billion, from ₱11.7 billion to ₱11.6 billion.

- Provision for income tax was at ₱0.9 billion for the years ended December 31, 2012 and 2011, respectively**.**

2011 vs. 2010

- The Group posted a ₱4.8 billion consolidated net income for the year ended December 31, 2011, ₱0.8 billion higher than the 2010 net income of ₱4.0 billion.

- Interest income from loans and receivable grew by a respectable 7.1% or up by ₱0.5 billion to ₱7.5 billion for the year ended December 31, 2011, from ₱7.0 billion in the same period last year attributed mainly to higher ADB on loans and receivables. Interest income from Investment securities and 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 ₱0.3 billion to ₱8.0 billion, from ₱7.7 billion in the previous year. Trading and investment net gains significantly increased by ₱0.5 billion, from ₱3.1 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. Both miscellaneous income and foreign exchange net gains went up by ₱0.3 billion each.. 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 ₱0.7 billion, from ₱12.4 billion to ₱11.7 billion, largely due to lower provision for impairment and credit losses, depreciation and amortization and miscellaneous expense by ₱0.8 billion, ₱0.2 billion and ₱0.3 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 the same at ₱0.9 billion for the years ended December 31, 2011 and 2010, respectively.

Key Performance Indicators

1. Capital Adequacy

Capital Management

The primary objective of the Parent Company's capital management is to ensure it complies with externally imposed capital requirements and 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.

The Bank and its individual regulatory operations have complied with all externally imposed capital requirements throughout the period.

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 consists 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.

In 2002, the BSP approved the booking and recognition of additional appraisal increment of ₱431.8 million on properties in determining the capital adequacy ratio. On the same year, the BSP also approved the booking of translation adjustment of P1.6 billion 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 regulatory qualifying capital of the Bank consists of Tier 1 (Core) and Tier 2 (Supplementary) capital. Core Tier 1 capital consists of paid-up common stock, additional paid in capital, retained earnings (including current year profit) and cumulative foreign currency translation adjustments less required deductions such as unsecured credit accommodations to DOSRI and deferred income tax. For Tier 2 Capital, Upper Tier 2 includes appraisal increment reserves on bank premises and general loan loss provision while Lower Tier 2 includes the unsecured subordinated debt to the extent of 50% of Tier 1 Capital.

Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio (CAR) is to be inclusive of a market risk charge. In August 2006, the BSP issued Circular No. 538 which contains the implementing guidelines for the revised risk-based capital adequacy framework to conform to Basel II recommendations. Under the revised framework, capital requirements for operational risk, credit derivatives and securitization exposures are to be included in the calculation of the Parent Company's capital adequacy. The revised framewok also prescribes a more granular mapping of external credit ratings to the capital requirements and recognizes more types of financial collateral and guarantees as credit risk mitigants. Changes in the credit risk weights of various assets such as foreign currency denominated exposures to the Philippine National Government, non-performing exposures and ROPA, were also made. Exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit assessment institutions. Credit risk-weights range from 0.00% to 150.00% depending on the type of exposure and/or credit assessment of the obligor. The new guidelines took effect last July 1, 2007.

The Group's consolidated capital adequacy ratio combined credit, market and operational risks computed based on BSP Circular No. 538 were 18.1%, 21.7%, and 19.4% as of December 31, 2012, 2011 and 2010, respectively, improving and well above the minimum 10% requirement of BSP. The following table sets the regulatory capital as reported to BSP as at December 31, 2012, 2011 and 2010 (amounts in billions):

CAPITAL ADEQUACY RATIO (CAR)

As of the Periods Indicated	Consolidated			Solo		
	2012	2011	2010	2012	2011	2010
Tier 1 (core) Capital	**29,950.780**	**34,546.588**	**31,226.240**	**30,744.150**	**35,173.686**	**31,762.160**
Common stock	26,489.837	26,489.837	26,489.837	26,489.837	26,489.837	26,489.837
Additional Paid in Capital	2,037.272	2,037.272	2,037.272	2,037.272	2,037.272	2,037.272
Retained Earnings	2,278.793	6,313.204	2,972.893	2,278.793	6,313.204	2,972.893
Cumulative Foreign Currency Translation	(909.161)	(340.611)	(427.324)	(61.752)	333.373	262.158
Undivided profits	-	-	-	-	-	-
Minority interest in subsidiary financial allied undertakings which are less than wholly-owned (for consolidated basis)	54.039	46.886	153.562	-	-	-
Deductions from Tier 1 Capital	3,442.213	4,045.702	3,983.936	3,345.648	3,977.010	3,784.189
Unsecured DOSRI	87.181	717.882	633.556	87.181	717.882	524.656
Deferred income tax	3,355.032	3,327.820	3,350.380	3,258.467	3,259.128	3,259.533
Gross Tier 1 Capital	26,508.567	30,500.886	27,242.304	27,398.502	31,196.676	27,977.971
Upper Tier 2 Capital	1,452.880	2,134.202	2,265.023	1,442.058	2,061.340	2,197.393
Appraisal Increment Reserve, Bank Premises auth. by MB	291.725	291.725	481.420	291.725	291.725	418.420
General loan loss provision (limited to 1.00% credit risk-weighted assets computed per Part III, Item B.)	1,161.155	1,842.477	1,846.603	1,150.333	1,769.615	1,778.973
Lower Tier 2 Capital (limited to 50% of Tier 1 Capital)	13,254.284	12,931.643	11,961.086	13,699.251	12,931.643	11,961.086
Unsecured Subordinated Debt	16,134.886	12,931.643	11,961.086	16,134.886	12,931.643	11,961.086
Total Tier 2 Capital	14,707.164	15,065.845	14,226.109	15,141.309	14,992.983	14,158.479
Gross Tier 2 Capital (limited to 100% of Tier 1 Capital)	14,707.164	15,065.845	14,226.109	15,141.309	14,992.983	14,158.479
Deductions from Qualifying Capital	3,122.668	159.483	0.426	9,472.213	6,511.277	6,426.021
Total qualifying capital	**38,093.063**	**45,407.248**	**41,467.987**	**33,067.598**	**39,678.382**	**35,710.429**

The risk-weighted assets of the Group and Parent Company as of December 31, 2012, 2011 and 2010 are as follows:

Risk-weighted on:						
Balance sheet assets:	180,263.416	180,351.138	180,745.689	172,427.340	173,521.304	174,440.114
20%	3,346.152	2,752.834	3,850.835	3,316.012	2,573.701	3,763.935
50%	3,874.130	5,383.494	8,317.292	3,853.812	5,374.547	8,185.300
75%	3,509.684	2,504.075	2,540.699	3,509.684	2,504.075	2,540.699
100%	140,892.358	137,279.025	129,185.631	133,209.840	130,796.580	123,290.244
150%	28,641.092	32,431.710	36,851.232	28,537.992	32,272.401	36,659.936
Off-Balance sheet assets:	2,462.837	2,680.680	2,569.938	2,013.627	2,224.317	2,112.454
20%	74.208	-	0.732	74.208	-	0.732
50%	1,782.022	8.734	8.734	1,782.022	8.734	8.734
75%	-	-	-	-	-	-
100%	606.607	2,671.946	2,560.472	157.397	2,215.583	2,102.988
150%	-	-	-	-	-	-
Total Counterparty Risk-Weighted Assets in the Banking Book (Derivatives and Repo-style Transactions)	673.881	1,019.170	1,230.350	673.881	1,019.170	1,230.350
Total Counterparty Risk-Weighted Assets in the Trading Book (Derivatives and Repo-style Transactions)	198.574	196.664	114.359	198.574	196.664	114.359
Total Risk-Weighted Amount of Credit Linked Notes in the Banking Book	-	-	-	-	-	-
Total Risk-Weighted Securitization Exposures	-	-	-	-	-	-
General loan loss provision (in excess of the amount permitted to be included in Upper Tier 2)	-	187.732	574.568	-	250.385	641.027
Total Credit Risk Weighted Assets	183,598.708	184,059.920	184,085.768	175,313.422	176,711.070	177,256.250
Market Risk Weighted Assets	3,255.293	3,992.760	9,260.220	3,241.655	3,863.760	9,178.250
Operational Risk-Weighted Assets	23,385.190	21,638.290	20,310.560	20,306.580	19,558.040	17,040.250
Total Risk Weighted Assets	210,239.191	209,690.970	213,656.548	198,861.657	200,132.870	203,474.750
Capital Ratios						
Tier 1 capital ratio	**11.866%**	**14.508%**	**12.750%**	**11.396%**	**13.961%**	**12.171%**
Tier 2 capital ratio	**6.253%**	**7.147%**	**6.658%**	**5.232%**	**5.865%**	**5.379%**

CAR	**18.119%**	**21.654%**	**19.409%**	**16.628%**	**19.826%**	**17.550%**

As of 31 March 2013, total capital adequacy ratio was at 21.7% while Tier 1 Capital Ratio was 16.5%

2. Asset Quality

Non-performing loans (NPL), net of loans classified as "Loss" in the latest BSP Report of Examination which are fully provided with allowance for credit losses, have been further reduced to ₱3.8 billion as of year-end 2012, from ₱4.6 billion and ₱4.9 billion as of year-end December 2011 and 2010, respectively. As of 31 March 2013 net NPL was ₱3.2 billion.

3. Profitability

	March 31, 2013	December 31, 2013 2012	2011 (as restated)	2010 (as restated)
Return on Average Equity [1/]	18.2%	12.7%	15.0%	13.6%
Return on Average Assets [2/]	2.6%	1.4%	1.5%	1.2%
Net Interest Income [3/]	2.8%	2.6%	3.0%	3.4%

[1] *net income (excluding non-controlling interest) divided by average equity attributable to equity holders of the PNB*
[2] *net income (excluding non-controlling interest) divided by average total assets*
[3] *net interest income divided by average interest-earning assets*

4. Liquidity

The ratios of liquid assets to total assets were 44.7%, 44.6%, 46.3% and 35.3% as of 31 March 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively.

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

5. Cost Efficiency

The ratios of total operating expenses (excluding provision for impairment and credit losses) to total operating income were 51.5%, 60.9%, 58.7% and 57.7% for March 2013, December 2012, December 2011 and December 2010, 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 obligations

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, arrangements or obligations

The following is a summary of various commitments and contingent liabilities of the Group as of March 31, 2013, December 31, 2012 and 2011 at their equivalent peso contractual amounts:

	3/31/2013	12/31/2012	12/31/2011
		(In Thousand Pesos)	
Trust department accounts	100,418,539	55,976,479	55,565,213
Deficiency claims receivable	11,850,751	6,309,340	6,334,950
Credit card lines	11,043,390		
Inward bills for collection	312,517	140,548	1,542,449
Outstanding guarantees issued	1,257,880	628,422	728,343
Outward bills for collection	360,346	105,029	123,224
Unused commercial letters of credit	139,258	36,096	85,260
Other contingent accounts	520,056	41,317	41,265
Confirmed export letters of credit	78,901	78,126	5,261
Items held as collateral	52	244	259

Capital Expenditures

The Bank plans to purchase hardware and software requirements needed for the implementation of new ATM acquisitions & security gadgets, Windows Operating Systems upgrades, Cash Management System Enhancement, Mobile Commerce System and Trust System upgrades among others.

Significant Elements of Income or Loss

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

Seasonal Aspects

There are no seasonal aspects that have material effect on the Bank's financial condition or results of operations.

Accounting Policies

The accounting policies adopted by the Group are consistent with those of the previous financial years except that the Group has adopted the following policies: Philippine Financial Reporting Standards (PFRSs), amendments to Philippine Accounting Standards (PAS) and Philippine Interpretations effective last January 1, 2012 and did not have significant impact on the financial position or performance of the Group.

New Standards and Interpretations:

PFRS 7*, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)

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 and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

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 to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The 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 using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, *Disclosure of Interests in Other Entities*

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

The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 13, *Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRSs 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. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The Group is currently assessing the impact of adopting this standard.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

PAS 19, *Employee Benefits* (Revised)

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 rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

The adoption of PAS 19 (Revised) which required restrospective application, resulted in the restatement of previously reported retirement obligation/asset of the Group. The adjustment amounts were determined by the Group with the assistance of an external actuary. The Parent Company and certain subsidiaries had chosen to close 'Surplus' the net effect of all transition adjustments as at January 1, 2011 (the transition date) upon retrospective application of PAS 19 (Revised). The Group will retain the remeasurements recognized in other comprehensive income and will not transfer these to other items in equity.

The effects of retroactive application of PAS 19 (Revised) and PFRS 10 are detailed below:

	December 31, 2012			
	As previously reported	Effect of retroactive application of PAS 19R	Effect of retroactive application of PFRS 10	As restated
Consolidated statements of financial position				
Assets				
Other assets-net	₱2,994,425	₱429	(₱816,217)	₱2,178,637
Liabilities				
Other liabilities	16,846,393	450,807	(11,949)	17,285,251
Equity				
Remeasurement losses on retirement plan	−	(781,900)	−	(781,900)
Surplus	6,888 ,348	331,500	46,219	7,266,067
Non-controlling interests	904,693	22	(850,487)	54,228

	January 1, 2012			
	As previously reported	Effect of retroactive application of PAS 19R	Effect of retroactive application of PFRS 10	As restated
Consolidated statements of financial position				
Assets				
Other assets-net	₱3,897,388	(₱1,217)	(₱514,002)	₱3,382,169
Liabilities				
Other liabilities	14,015,965	681,915	(29,641)	14,668,239
Equity				
Remeasurement losses on retirement plan	−	(1,004,057)	−	(1,004,057)
Surplus	2,246,213	320,965	−	2,567,178
Non-controlling interests	531,247	(39)	(484,361)	46,847

Other income, other expenses, provision for income tax and income attributable to non-controlling interests decreased by ₱989.4 million, ₱623.3 million and ₱46.2 million, and ₱366.1 million for the year ended December 31, 2012.

PAS 27, *Separate Financial Statements* (as revised in 2011)

As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, 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 the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. 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 issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, 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.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Group expects that this interpretation will not have any impact on its financial position or performance. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)

The amendments 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. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PFRS 9, *Financial Instruments*

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, the Group is still evaluating the effects of the adoption of PFRS 9. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

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 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 (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

***Annual Improvements to PFRSs* (2009-2011 cycle)**

The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*

The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.

PAS 34, ***Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities***

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

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

In compliance with SEC Rule 68, as amended, and BSP Circular 660, Series of 2009, which require that the external auditor or rotation of the engagement and concurring partner every five (5) years, Ms. Janeth T. Nuñez, the Partner-in-Charge for the last five (5) years (2008 to 2012), was be replaced by Ms. Vicky B. Lee-Salas, SGV's Leader for Market Group 5 and one of the more experienced audit partners in the banking industry.

MANAGEMENT AND CERTAIN SECURITY HOLDERS

PROFILE OF DIRECTORS TOGETHER WITH THEIR BUSINESS EXPERIENCE COVERING AT LEAST THE PAST FIVE (5) YEARS

FLORENCIA G. TARRIELA, 66, Filipino, first elected as a Director on May 29, 2001, has been serving as Chairman of the Board 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, Director of PNB Life Insurance, Inc., and LT Group, Inc. She is a Director of PNB's overseas subsidiaries, namely, PNB RCI Holdings Co., Ltd. and PNB (Europe) Plc. She obtained her Bachelor of Science in Business Administration degree, Major in Economics, from the University of the Philippines and her Masters in Economics degree, 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), a Trustee of FINEX Foundation, TSPI Development Corporation, 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 also former Undersecretary of Finance, and an alternate Member of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP), Land Bank of the Philippines (LBP) and the Philippine Deposit Insurance Corporation (PDIC). She was formerly Deputy Country Head, Managing Partner and the first Filipino female Vice President of Citibank N. A., Philippine Branch. Ms. Tarriela is a co-author of several inspirational books- "Coincidence or Miracle? Books I, II, III ("Blessings in Disguise"), and IV ("Against All Odds"), and gardening books- "Oops - Don't Throw Those Weeds Away!" and "The Secret is in the Soil". She is an environmentalist and practices natural ways of gardening.

FELIX ENRICO R. ALFILER, 63, Filipino, was elected as Independent Director of the Bank effective January 1, 2012. Mr. Alfiler completed his undergraduate and graduate studies in Statistics at the University of the Philippines in 1973 and 1976, respectively. 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 the 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 the rescheduling of the Philippines' medium- and long-term foreign debts. In the private sector, Mr. Alfiler was an 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), and Vice President of the Philippine Product Safety and Quality Foundation, Inc. and Convenor for Fair Trade Alliance.

OMAR BYRON T. MIER, 66, Filipino, was appointed as the Bank's President and Chief Executive Officer (CEO) on February 9, 2013 after serving as Acting President since July 17, 2012. He has been serving as Director of the Bank since May 25, 2005 and was formerly President and CEO 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, and Bachelor of Arts in Economics from the University of the Philippines. He is currently Chair of PNB Capital and Investment Corporation, PNB Forex, Inc., Japan-PNB Leasing and Finance Corporation, Japan-PNB Equipment Rentals Corporation, Bulawan Mining Corporation, PNB Italy SpA, PNB (Europe) Plc and PNB RCI Holdings Co., Ltd. He is also a Director of PNB Holdings Corporation, PNB General Insurers Co., Inc., PNB Securities, Inc., Management Development Corporation, and PNB Global Remittance and Financial Co., HK, Ltd. He was formerly the Chairman of Victorias Milling Company, Inc. and a Director of Citra Metro Manila Tollways Corporation and Credit Information Corporation. Prior to his election as a member of the Board of the Bank, he served as Executive Vice President and Chief Credit Officer from August 16, 2002 to April 10, 2005 then was 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.

FLORIDO P. CASUELA, 71, Filipino, has been serving as a 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 Centers, Inc., and PNB RCI Holdings Co., Inc. 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, Inc. He was formerly the President of Maybank

Philippines, Inc. from February 1992 to July 1993, Land Bank of the Philippines from July 1998 to August 2000, 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.

ANTHONY Q. CHUA, 61, Filipino, was appointed as the Bank's Senior Executive Vice President and Chief Operating Officer on February 9, 2013 concurrent to his position as Director. He served as a Director/President of Allied Banking Corporation since May 21, 2009. He is also the Chairman of Allied Savings Bank and a Director of Super Travel Inc. and Asian Insular Holdings Corporation. He is the Chairman of Japan-PNB Leasing and Finance Corporation and a Director of PNB General Insurers Co., Inc., PNB Securities, Inc., PNB Forex, Inc., Japan-PNB Equipment Rentals Corporation, and Management Development Corporation. He finished his Bachelor of Arts and Bachelor of Science degrees, Major in Accounting (Cum Laude), at the De La Salle University, Manila, and obtained his MBA and doctorate in Business degrees from the Michigan State University. A Certified Public Accountant, he started his banking career with Citibank in 1981 where he held the positions of Relationship Manager for the Institutional Banking Group, Risk Manager and Product Development Unit Head for the Investment Banking Group, Transaction Banking Head, and later Global Asset Management Head until 1995. He was President of the Philippine Bank of Communications from 1997 to 1998. In 1999, he joined SGV/Arthur Andersen, Manila as Project Consultant and later became Partner of the Business Consulting Group in 2000 and the Risk Consulting Group in 2001. From 2002 to 2008, he was an Executive Vice President of the Philippine National Bank.

LEONILO G. CORONEL, 66, Filipino, obtained his Bachelor of Arts, Major in Economics degree from the Ateneo de Manila University in 1967 and finished the Advance Management Program of the University of Hawaii in 1977. He became a Fellow of the Australian Institute of Company Directors in 2002. Presently, he is the Managing Director of the Bankers Association of the Philippines (BAP) - Credit Bureau, Inc., an Independent Director of Megawide Construction Corporation and DBP-Aiwa Securities SMBC Phils. Inc., a Director of Software Ventures Int'l., and an Executive Director of Rafael Buenaventura Micro Finance Foundation. Prior to his present positions, Mr. Coronel was a Consultant of BAP, Land Bank of the Philippines, Arthur Young/U.S. AID and Economic Development Foundation. He also previously served as the Treasurer of PDS Holdings, a Director of the Philippine Clearing House Corporation, the Philippine Dealing System and the Philippine

Depository & Trust Corporation, a Trustee/Treasurer and member of the Capital Market Development Council Institute, a member of the Executive Committee of the Philippine Business for Social Progress and the President of Cebu Bankers Association. He also worked with Citibank, Manila for twenty (20) years, occupying various positions.

REYNALDO A. MACLANG, 75, Filipino, was elected as a Director of the Bank on February 9, 2013. He holds a Bachelor of Laws degree from the Ateneo de Manila University. He was a Director of Allied Bank since August 15, 2001. He is also a Director of Allied Leasing and Finance Corporation, Allied Savings Bank and Eton Properties Philippines. He was formerly the President of Allied Savings Bank from 1986 to 2001, and became President of Allied Banking Corporation in 2001 up to 2009. He has been with the Bank since 1977. Previous to that, he had been connected with other commercial banks and practiced law.

ESTELITO P. MENDOZA, 83, Filipino, was elected as a Director of the Bank effective January 1, 2009. He obtained his Bachelor of Laws degree from the University of the Philippines and Master of Laws degree from the Harvard Law School. A practicing lawyer for more than sixty 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 Philippine Airlines, Inc., San Miguel Corporation, Meralco, and Petron Corporation.

CHRISTOPHER J. NELSON, 54, British, was elected as an Independent Director of the Bank on March 21, 2013, subject to regulatory approval. He holds a Bachelor of Arts degree in History and Masters of Arts degree in History both from the Emmanuel College, Cambridge University. He was the President of Philip Morris Fortune Tobacco Corporation, Inc. (PMFTC, Inc.) and concurrently served as Managing Director of Philip Morris Philippines Manufacturing, Inc. up to April 30, 2013. He has 31 years of experience in the tobacco business, 25 years of which is with Philip Morris International holding various positions including Philip Morris Area Director for Saudi Arabia, Kuwait, Gulf Cooperation Council, Yemen, and the Horn of Africa. Mr. Nelson is also involved in various business and non-profit organizations that work for the social and economic upliftment of communities. He is a Director of the American Chamber of Commerce, the Philippine Band of Mercy and the Federation of Philippine Industries. He is also Vice President of the American Chamber of Commerce Foundation and the Tan Yan Kee Foundation.

WASHINGTON Z. SYCIP, 91, American, has been serving as a Director of the Bank since May 30, 2000. He is the founder of SGV Group, the Philippines' largest professional services firm. He is also one of the founders and Chairman Emeritus of the Asian Institute of Management; member of the Board of Overseers of the Graduate School of Business at Columbia University; Honorary Chairman of the Euro-Asia Centre of INSEAD in Fontainebleau, France; and Honorary Life Trustee of The Asia Society. He is presently an Independent Director of Belle Corporation, Lopez Holdings, Commonwealth Foods, Inc., First Philippine Holdings Corp., Highlands Prime, Inc., Philippine Equity Management, Inc., Philippine Hotelier, Inc., Philamlife, 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, STEAG State Power, Inc. and State Properties Corporation. He is a member of the Board of Directors of a number of other major corporations in the Philippines and other parts of the world. Mr. SyCip served as President of the International Federation of Accountants (1982-1985), member of the International Advisory Board of the Council on Foreign Relations (1995-2010), Vice Chairman of the Board of Trustees of The Conference Board (2000-2004), and Chairman of the Asia Pacific Advisory Committee of the New York Stock Exchange (1997-2004). He also served on the International Boards of the American International Group, AT&T, Australia & New Zealand Bank, Caterpillar, Chase Manhattan Bank, Owens-Illinois, Pacific Dunlop and United Technologies Corporation, among others. He was a member of the Board of Trustees of the Ramon Magsaysay Award Foundation (2005-2008) and Eisenhower Exchange Fellowship (1999-2010). Among his awards are the Order of Lakandula, Rank of Grand Cross, conferred by Philippine President Benigno S. Aquino, III on June 30, 2011; Lifetime Achievement Award given by Columbia Business School in 2010 and Asia Society in 2012; Ramon Magsaysay Award for International Understanding in 1992; the Management Man of the Year given by the Management Association of the Philippines in 1967; 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 Australia in 1976; and the Officer First Class of the Royal Order of the Polar Star awarded by H.M. the King of Sweden in 1987.

HARRY C. TAN, 67, Filipino, has been serving as a Director of Allied Banking Corporation since November 1999. He holds a Bachelor of Science degree in Chemical Engineering from Mapua Institute of Technology. Mr. Tan is the President of Century Park Hotel, Landcom Realty Corporation and Oceanic Holdings BVI Ltd. He is also the Vice Chairman of Lucky Travel Corp., Tanduay Holdings, Inc., Tanduay Distillers, Inc., Eton Properties Philippines, Inc., Eton City Inc., Belton Communities, Inc. and First Homes, Inc. He is the Managing Director/Vice Chairman of Charter House Inc. and is a member of the Board of Directors of various private firms which include Asia Brewery, Inc., Dominium Realty and Construction Corp., Shareholdings Inc., Himmel Industries, Inc., Tobacco Recyclers Corporation, PMFTC Inc., Fortune Tobacco Int'l. Corp., Basic Holdings Corporation, Pan Asia Securities Inc., Absolut Distillers, Inc., Allied Bankers Insurance Corporation, Asian Alcohol Corp., REM Development Corporation, Tanduay Brands International Inc., Foremost Farms, Inc., Grandspan Development Corp., Manufacturing Services and Trade

Corporation, Progressive Farms, Inc., PAL Holdings, Inc. and Oceanic Bank. He is also a Director/Chairman for Tobacco Board of Fortune Tobacco Corporation.

LUCIO C. TAN, 78, Filipino, has been serving as a 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 the Chairman of Allied Banking Corporation from 1977 to 1999. He is presently the 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., 46, Filipino, has been serving as a Director of the Bank since September 28, 2007. He obtained his Bachelor of Science in Civil Engineering (Minors in classical Chinese Mandarin and Mathematics) degree 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 works with MacroAsia Corporation, where he held the rank of President and Chief Executive Officer for 7 years. Mr. Tan is currently the President 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 Centers, Inc. (RCI), Executive Director of Dynamic Holdings Limited, and Executive Vice President (EVP) of Fortune Tobacco Corporation.

MICHAEL G. TAN, 47, Filipino, was elected as a Director of the Bank on February 9, 2013. He is President/Director of LT Group, Inc., the holding firm of the Lucio Tan Group of Companies. He also served as a Director of Allied Banking Corporation since January 30, 2008 until the ABC's merger with PNB on February 9, 2013. He is also the Director/Chief Operating Officer of Asia Brewery, Inc. and a member of the Board of Directors of the following companies: Abacus Distribution Systems Phils., Inc., Allied Commercial Bank, Allied Bankers Insurance Corp., Absolut Distillers, Inc., Air Philippines Corporation, Philippine Airlines, Inc., PAL Foundation, Inc., PAL Holdings, Inc., Lucky Travel Corporation, Eton Properties Philippines, Inc., Eton City, Inc., PMFTC Inc., Shareholdings, Inc., and Victorias Milling Company, Inc. He holds a Bachelor of Applied Science in Civil Engineering degree from the University of British Columbia, Canada.

DEOGRACIAS N. VISTAN, 69, Filipino, was appointed as an 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, 32, 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 appointment, she was Assistant Corporate Secretary and later Acting Corporate Secretary of the Bank. Presently, she also serves as a Director and Corporate Secretary of Valuehub, Inc., a family-owned distribution company.

PROFILE OF SENIOR OFFICERS TOGETHER WITH THEIR BUSINESS EXPERIENCE COVERING AT LEAST THE PAST FIVE (5) YEARS:

OMAR BYRON T. MIER, 66, Filipino, was appointed as the Bank's President and Chief Executive Officer (CEO) on February 9, 2013 after serving as Acting President since July 17, 2012. He has been serving as Director of the Bank since May 25, 2005 and was formerly President and CEO 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, and Bachelor of Arts in Economics from the University of the Philippines. He is currently Chairman of PNB Capital and Investment Corporation, PNB Forex, Inc., Japan-PNB Leasing and Finance Corporation, Japan-PNB Equipment Rentals Corporation, Bulawan Mining Corporation, PNB Italy SpA, PNB (Europe) Plc and PNB RCI Holdings Co., Ltd. He is also a Director of PNB Holdings Corporation, PNB General Insurers Co., Inc., PNB Securities, Inc., Management Development Corporation, and PNB Global Remittance and Financial Co., HK, Ltd. He was formerly the Chairman of Victorias Milling Company, Inc. and a Director of Citra Metro Manila Tollways Corporation and Credit Information Corporation. Prior to his election as a member of the Board of the Bank, he served as Executive Vice President and Chief Credit Officer 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.

ANTHONY Q. CHUA, 61, Filipino, was appointed as the Bank's Senior Executive Vice President and Chief Operations Officer on February 9, 2013. He served as a Director/President of Allied Banking Corporation since May 21, 2009. He is also the Chairman of Allied Savings Bank and a Director of Super Travel Inc. and Asian Insular Holdings Corporation. He is the Chairman of Japan-PNB Leasing and Finance Corporation and a Director of PNB General Insurers Co., Inc., PNB Securities, Inc., PNB Forex, Inc., Japan-PNB Equipment Rentals Corporation, and Management Development Corporation. He finished his Bachelor of Arts and Bachelor of Science, Major in Accounting (Cum Laude) at the De La Salle University, Manila, and obtained his MBA and doctorate in Business degrees from the Michigan State University. A Certified Public Accountant, he started his banking career with Citibank in 1981 where he held the positions of Relationship Manager for the Institutional Banking Group, Risk Manager and Product Development Unit Head for the Investment Banking Group, Transaction Banking Head, and later Global Asset Management Head until 1995. He was President of the Philippine Bank of Communications from 1997 to 1998. In 1999, he joined SGV/Arthur Andersen, Manila as Project Consultant and later became Partner of the Business Consulting Group in 2000 and the Risk Consulting Group in 2001. From 2002 to 2008, he was an Executive Vice President of the Philippine National Bank.

HORACIO E. CEBRERO III, 51, 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 an Executive Vice President and the 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 29 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.

CHRISTOPHER C. DOBLES, 69, Filipino, Executive Vice President, is Head of the Bank's Corporate Security Group and concurrently the Bank Security Officer of Allied Savings Bank. He served as the Chairman of the Investigation Committee, the Business Continuity Committee and the Labor Management Relations Committee. He was formerly the Head of Allied Bank's Credit Investigation and Appraisal Department. He was also appointed as the Internal Affairs Officer of the Anti-Fraud Committee. He was a member of the Allied Bank's Senior Management Committee and the Personnel Committee. Before joining PNB, he was with Allied Bank since 1977. He holds a Bachelor of Arts degree from the University of Sto. Tomas and took up units in Masters in Business from the Ateneo Graduate School. He is also a commissioned officer with the rank of Major in the Philippine Constabulary Reserve Force. Prior to becoming the Bank Security Officer, he has held key positions with the Allied Banking Corporation including Head of the Corporate Affairs. He was also a former President of the Bank Security Management Association (BSMA) and was consistently elected as a member of the Association's Board of Directors up to present.

JOVENCIO B. HERNANDEZ, 60, Filipino, Executive Vice President, is Head of the Retail Banking Group. A Certified Public Accountant, he obtained his Bachelor of Science in Commerce degree, Major in Accounting, from the De La Salle College. Prior to joining PNB, he was a Senior Vice President and the 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.

MA. ELENA B. PICCIO, 64, Filipino, Executive Vice President, is Head of the Institutional Banking Group since February 2008. She obtained her Bachelor of Arts in Business Administration degree 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, 49, Filipino, First Senior Vice President, is Head of the Information Technology (IT) Group. He obtained his Bachelor of Science in Management Engineering degree 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.

YOLANDA M. ALBANO, 62, Filipino, First Senior Vice President (FSVP), is Head of the Bank's Commercial Banking Group. She was previously the FSVP and Head of Allied Bank's Institutional Banking Group, comprising the Account Management Division and the Merchant Banking Division. She joined Allied Bank in 1977, starting off as an Account Officer at the Business Development Division and moving on as Head of the Credit and Research Department, concurrent Head of the Corporate Affairs Department, Head of the Account Management Division, and Head of the Institutional Banking Division. At present, she is a member of the Financial Executives Institute of the Philippines (FINEX) and the Makati Business Club. She is a past President of the Bank Marketing Association of the Philippines (BMAP) and the Credit Management Association of the Philippines (CMAP). Ms. Albano completed her AB-Economics degree in three years with a Dean's Award for Academic Excellence from the University of the Philippines.

CENON C. AUDENCIAL, JR., 54, Filipino, First Senior Vice President, is 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 degree from the Ateneo de Manila University.

ZACARIAS E. GALLARDO, JR., 63, Filipino, First Senior Vice President, was appointed as Chief Financial Officer and Head of the Financial Management and Controllership Group of the Bank on October 1, 2012. Mr. Gallardo, a Certified Public Accountant, obtained his degree of Bachelor of Science in Commerce (Summa Cum Laude) from the Far Eastern University in 1969. He has earned units for his Masters in Business Administration degree at De La Salle College, Bacolod City. He had served with the Central Bank of the Philippines for 24 years where he was extensively exposed to all phases of banking. He worked with consultancy firms and published a reference book on Regulations on Trust and Fiduciary Business and Investment Management Activities. He joined Allied Bank in 1996 and served as the bank's Controller from 2001 until he joined PNB in 2012. He also headed the Allied Bank's ICAAP Core Team and Business Continuity unit.

MIGUEL ANGEL G. GONZALEZ, 54, Filipino, First Senior Vice President, is the Chief Credit Officer and Head of the Remedial and Credit Management Group. He entered the bank in March 2010 as Senior Vice President for Commercial Banking Group. He obtained his Bachelor of Science in Industrial Engineering degree from the University of the Philippines and Masters in Business Management degree 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.

RAMON L. LIM, 62, Filipino, is the President and CEO of PNB Securities, Inc., a wholly-owned subsidiary of the Bank. He obtained his Bachelor of Science in Commerce degree, Major in Accounting (Magna Cum Laude), from the University of San Carlos in April 1971 and is a Certified Public Accountant. He completed his Masters in Business Management at the Asian Institute of Management (AIM) in 1980 as a 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 of the 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. He has been a Fellow of the Institute of Corporate Directors since May 2011.

EDGARDO T. NALLAS, 56, Filipino, FSVP was seconded to Japan –PNB Leasing and Finance Corp. as its the President and CEO effective May 1, 2013. 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).

BENJAMIN J. OLIVA, 60, Filipino, First Senior Vice President, is 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. Oliva obtained his Bachelor of Science in Commerce degree, Major in Accounting (Cum Laude) from the De La Salle University. He started his career with FNCB Finance, Inc. where he held various junior managerial positions from 1973-1978. He moved to Jardine Manila Finance in 1978 as Vice President of Metro Manila Auto Finance. In 1980, Mr. Oliva started his career as a banker at the State Investment Bank where he was Head of Corporate Sales Lending Division. In 1981, he moved to PCI Bank and handled the Corporate Banking Division. He joined Citibank, NA in 1988, where he exhibited his expertise in sales and headed different sales divisions (Corporate Banking, Loans, Cards and Citiphone Banking). He became a Director for various divisions such as Country Sales, Credit Cards Business, Business Development and Personal Loans from November 1999 to January 2006. On January 2006, he was hired by Citibank Savings, Inc. as its President. From June 2009 to July 2011, he held concurrent positions as Commercial Banking Director of Citibank NA and Board Member of Citibank Savings, Inc. Since September 2011, he has been a designate Consultant for Consumer Banking of United Coconut Planters Bank. Mr. Oliva joined PNB on September 10, 2012.

EMMANUEL GERMAN V. PLAN II, 60, Filipino, First Senior Vice President, is 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 the 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 Stearns 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 Sambayan Educational Foundation, Inc., LSQC Scholarship Foundation, UST-EHSGAA and Magis Deo, to name a few.

ELFREN ANTONIO S. SARTE, 53, Filipino, First Senior Vice President, is Head of the Consumer Finance Group and Consumer Credit and Collection Division. He obtained his Bachelor of Science in Industrial Management Engineering degree, 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 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.

RAFAEL Z. SISON, JR., 57, Filipino, holds a Bachelor of Science in Business Administration degree, Major in Management, from the Ateneo de Davao University. He was appointed as the First Senior Vice President and Head of the Branch Banking Group on February 9, 2013. Prior to his appointment, he served as Head of Allied Banking Corporation's Retail Banking Group since February 2010. In May 2011, he accepted the offer to join Planters Development Bank as their Branch Banking Group Head with the rank of Senior Vice President. After a short stint, he returned to Allied Bank. He has an extensive experience in both Branch Banking sales and operations. He started his career in the Bank of the Philippine Islands in 1978 and went up the corporate ladder in various banks with stints at Citytrust Banking Corporation (1987-1994), Solid Bank (1994-2000), United Overseas Bank (2000), Rizal Commercial Banking Corporation (2000-2002), Chinatrust Commercial Bank Corporation (2002-2006), and Philippine National Bank (2006-2010).

EMELINE C. CENTENO, 54, Filipino, Senior Vice President, is Head of the Corporate Planning and Research Division. She obtained her Bachelor of Science in Statistics degree (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, 56, Filipino, Senior Vice President, was appointed Chief Compliance Officer of the Bank on June 16, 2010 with oversight on the Parent Bank including all subsidiaries, affiliates and foreign branches. She is concurrently the Corporate Governance Executive of the Bank. 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 the 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 the 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.

SOCORRO D. CORPUS, 61, Filipino, Senior Vice President, is Head of the Human Resource Group. A graduate of the Assumption College with a Bachelor of Arts degree, Major in Psychology as well as an Associate in Commercial Science degree, she has been an HR practitioner for almost 40 years. She started her career with China Banking Corporation in 1973 as an HR specialist prior to joining the Allied Banking Corporation in 1977 as an Assistant Manager. Her professional affiliations include the following: founding member and a Board Member of the Organization Development Professional Network (ODPN), past President and member of the Bankers' Council for People Management, member of the Personnel Management Association of the Philippines, and the regular Bank representative to the Banking Industry Tripartite Council.

MARIA PAZ D. LIM, 52, Filipino, Senior Vice President, is the Corporate Treasurer. She obtained her Bachelor of Science in Business Administration degree, 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, 43, Filipino, Senior Vice President, is Head of the Global Operations Group. He has a Bachelor of Science in Industrial Engineering degree from the University of the Philippines and an MBA from the Shidler College of Business at the University of Hawai'i at Manoa. He was an East-West Center Degree Fellow and the recipient of a full scholarship while at the University of Hawai'i. He also attended the Handelshojskolen I Arhus (The Aarhus School of Business), Pacific Asian Management Institute and the European Summer School for Advanced Management for additional graduate studies. He started his banking career as a management consultant to Citibank-Asia Pacific for several years. Mr. Medina later worked with Union Bank of the Philippines where he conceptualized and implemented electronic banking products and services. Prior to heading the Global Operations Group, he was Head of the Business Systems Support Group at PNB where he facilitated the policy, process and technology retooling of the Bank culminating in the replacement of its core banking systems in the Philippines, US, UK, Japan, Singapore and Hong Kong. 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.

AIDA M. PADILLA, 64, Filipino, Senior Vice President, is Head of the Remedial Management Division. She is chief strategist as regards problem and distressed accounts. A seasoned professional, she rose from the branch banking ranks at the Philippine Banking Corporation to become Vice President for Marketing at the Corporate Banking Group. She obtained her Bachelor of Science in Commerce degree, Major in Accounting, from St. Theresa's College.

CARMELA A. PAMA, 56, 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 degree from the University of the Philippines and Masters in Business Administration degree 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 on 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. She has been involved in the merger/integration team since its inception and is member of the Integration Management Office. Her more than 6 years with PNB has continually improved her proficiency in all facets of banking operations.

EMMANUEL A. TUAZON, 49, Filipino, Senior Vice President, is the Bank's Chief Marketing Officer and Head of the Marketing Group. He obtained his Bachelor of Science degree, Major in Mathematics, from 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 Vice President for Marketing of Security Bank.

MANUEL C. BAHENA, JR., 51, Filipino, First Vice President, is the Officer-in-Charge of the Legal Group. He joined PNB in 2003 and was appointed as Head of Documentation and Research Division of the Legal Group in 2009. Before joining PNB, he was the Corporate Secretary and Vice President of the Legal Department of Multinational Investment Bancorporation. He also served as Corporate Secretary and Legal Counsel of various corporations, among which are: the Corporate Partnership for Management in Business, Inc., Orioxy Investment Corporation, Philippine Islands

Corporation for Tourism and Development, Cencorp (Trade, Travel and Tours), Inc., and Central Bancorporation General Merchants, Inc. He obtained his Bachelor of Science in Business Administration degree from Lyceum of the Philippines in 1981 and his Bachelor of Laws degree from Arellano University in 1987.

DIOSCORO TEODORICO L. LIM, 58, Filipino, First Vice President, is Chief Audit Executive (CAE) of the Bank. He is also a Director of the Rosehills Management Development Corporation. A Certified Public Accountant, he holds a Bachelor of Science in Commerce degree, Major in Accounting, from the University of San Carlos – Cebu. He started his career in 1976 with SGV as a Staff Auditor, and after a year was Field in Charge until 1978 before joining Allied Banking Corporation in 1979 as a Junior Auditor. He rose from the ranks to become an Audit Officer in 1986, and in 2000, was designated as Head of the Internal Audit Division of Allied Banking Corporation until his appointment as CAE of PNB on February 9, 2013. He also served as Compliance Officer of Allied Savings Bank (seconded officer) from August 2001 to August 2006. He is a member of the Institute of Internal Auditors (IIA) Philippines, Association of Certified Fraud Examiners (ACFE) – Philippines and Philippine Institute of Certified Public Accountants.

Significant Employees

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

Family Relationships

Directors Harry C. Tan and Lucio C. Tan are brothers. Directors Lucio K. Tan, Jr. and Michael G. Tan are sons of Mr. Lucio C. Tan.

Involvement in Certain Legal 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 other than cases which arose out of the ordinary course of business in which they may have been impleaded in their official capacity;

iii. being subject to any order, judgment, or decree of a competent court, domestic or foreign, permanently or temporarily enjoining, barring, suspending or limiting their 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.

Executive Compensation

(1) General

Annual compensation of executive officers consists of a 16-month guaranteed cash emolument. Directors, on the other hand, are entitled to a reasonable per diem for each Board or Board Committee meeting attended. Total per diem given to the Board of Directors of the Bank for the years 2011 and 2012 amounted to P3.970 million and P4.275 million, respectively.

Other than the above-stated, there are no other arrangements concerning compensation for services rendered by Directors or executive officers to the Bank and its subsidiaries.

(2) Summary Compensation Table

Annual Compensation (In Pesos)					
Name and Principal Position	Year	Salary	Bonus	Others	Total
Omar Byron T. Mier[1/] Carlos A. Pedrosa[2/] President/Chief Executive Officer & Vice Chair 1. Horacio E. Cebrero III Executive Vice President 2. Jovencio B. Hernandez Executive Vice President 3. Carmen G. Huang[3/] Executive Vice President 4. Ma. Elena B. Piccio Executive Vice President					

CEO and Four (4) Most Highly Compensated Executive Officers	Actual 2011	24,939,050	8,653,884	-	33,592,934
	Actual 2012	24,864,276	7,990,083	-	32,854,359
	Projected 2013	28,600,000	9,200,000	-	37,800,000
All other officers and directors (as a group unnamed)	Actual 2011	750,471,380	248,191,705	-	998,663,085
	Actual 2012	794,199,788	271,592,114	-	1,065,791,902
	Projected 2013	913,300,000	312,300,000	-	1,225,600,000

1/ Assumed as Acting President effective July 17 2012
2/ Resigned as President and CEO effective February 9, 2013
3/Resigned effective August 17, 2012

(3) 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, Article VI, Sec. 6.1, all officers with the rank of Vice President and up hold office and serve at the pleasure of the Board of Directors.

(4) 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.

Security Ownership of Certain Record and Beneficial Owners and Management.

(1) Security Ownership of Certain Record and Beneficial Owners (*more than 5% of any class of voting securities as of May 31, 2013)*

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	Allmark Holdings Corporation - Quezon City - 14,754,256 shares Shareholder	Owned and Controlled by LT Group, Inc.	Filipino	527,628,036	48.61%
Common	Caravan Holdings Corporation - Marikina City - 58,389,760 shares Shareholder		Filipino		
Common	Donfar Management Ltd. - Makati City - 21,890,077 shares Shareholder		British		
Common	Dunmore Development Corp. (X-496) - Makati City - 10,779,000 shares Shareholder		Filipino		
Common	Fast Return Enterprises, Ltd. - Makati City - 12,926,481 shares Shareholder		British		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Fragile Touch Investment Ltd. - Makati City - 16,157,859 shares Shareholder	Owned and Controlled by LT Group, Inc.	British		
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	Key Landmark Investments, Ltd. - British Virgin Islands - 94,883,360 shares Shareholder		British		
Common	Leadway Holdings, Inc. - Quezon City - 46,495,880 shares Shareholder		Filipino		
Common	Mavelstone International Ltd. - Makati City - 21,055,186 shares Shareholder		British		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Merit Holdings and Equities Corporation - Quezon City - 12,377,119 shares Shareholder	Owned and Controlled by LT Group, Inc.	Filipino		
Common	Multiple Star Holdings Corporation - Quezon City - 21,925,853 shares Shareholder		Filipino		
Common	Pioneer Holdings Equities, Inc. - Pasig City - 24,386,295 shares Shareholder		Filipino		
Common	Solar Holdings Corporation - Pasig City - 58,389,760 shares Shareholder		Filipino		
Common	True Success Profits, Ltd. - British Virgin Islands - 58,389,760 shares Shareholder		British		
Common	Uttermost Success, Ltd. - Makati City - 21,523,715 shares Shareholder		British		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	All Seasons Realty Corporation - Makati City - 7,123,387 shares Shareholder	The records in the possession of the Bank show that the beneficial ownership of these companies / individuals belongs to the shareholders of record of said companies or to the individual himself, as the case may be.[2] The Bank has not been advised otherwise.	Filipino	198,216,995	18.25%
Common	Domingo T. Chua - Quezon City - 210,220 shares Shareholder		Filipino		
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 Corporation - Makati City - 17,945,960 shares Shareholder		Filipino		

[2] *The companies issue proxies/special powers of attorney (SPAs) to Mr. Lucio C. Tan as their authorized proxy/attorney-in-fact to vote their shares during stockholders' meetings. Said proxies/special powers of attorney are renewed by the foregoing shareholders on a year-to-year basis.*
Other than the proxies/SPAs mentioned above, the Bank is not aware of any other relationship between Mr. Tan and the above-stated companies. Mr. Domingo T. Chua is a brother-in-law of Mr. Lucio C. Tan.

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Fil-Care Holdings, Inc. - Quezon City - 18,119,076 shares Shareholder		Filipino		
Common	Integrion Investments, Inc. - Pasay City - 7,833,794 shares Shareholder		Filipino		
Common	Kentron Holdings and Equities Corp. - Pasig City - 17,343,270 shares Shareholder		Filipino		
Common	Kentwood Development Corporation - Pasig City - 12,271,396 shares Shareholder		Filipino		
Common	La Vida Development Corporation - Quezon City - 3,587,300 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	La Vida Development Corporation A/C#2423 - Quezon City - 10,371,574 shares Shareholder		Filipino		
Common	Local Trade and Development Corporation - Makati City - 5,836,153 shares Shareholder		Filipino		
Common	Luys Securities Co., Inc. - Makati City - 17,898 shares Shareholder		Filipino		
Common	Mandarin Securities Corporation - Makati City - 13,281 shares Shareholder		Filipino		
Common	Opulent Land-Owners, Inc. - Quezon City - 4,105,313 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	Power Realty Development Corporation - Quezon City - 589,268 shares Shareholder		Filipino		
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		

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	Total Holdings Corporation - Pasig City - 11,387,186 shares Shareholder		Filipino		
Common	Witter Webber & Schwab Investment, Inc. - Pasay City - 7,833,795 shares Shareholder		Filipino		
Common	Zebra Holdings, Inc. - Marikina City - 6,432,773 shares Shareholder		Filipino		

(2) Security Ownership of Management (Individual Directors and Executive Officers as of May 31, 2013)

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Common Shares	Florencia G. Tarriela Chairman Independent Director	2 shares ₱80.00 (R)	Filipino	0.0000001841
	Felix Enrico R. Alfiler Independent Director	100 shares ₱4,000.00 (R)	Filipino	0.0000092063
	Omar Byron T. Mier President and Chief Executive Officer	120,200 shares ₱4,808,000.00 (R)	Filipino	0. 0110660163
	Florido P. Casuela Director	100 shares ₱4,000.00 (R)	Filipino	0.0000092063
	Anthony Q. Chua Director Senior Executive Vice President & Chief Operations Officer	1,130 shares ₱45,200.00 (R)	Filipino	0.0001040316
	Leonilo G. Coronel Director	1 share P40.00 (R)	Filipino	0.0000000921
	Reynaldo A. Maclang Director	2,130 shares ₱85,200.00 (R)	Filipino	0.0001960950
	Estelito P. Mendoza Director	1,000 shares ₱40,000.00 (R)	Filipino	0.0000920634
	Christopher J. Nelson Independent Director	100 shares ₱4,000.00 (R)	British	0.0000092063
	Washington Z. SyCip Director	34,010 shares ₱1,360,400.00 (R)	American	0.0031310750

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Common Shares	Harry C. Tan Director	230 shares ₽9,200.00 (R)	Filipino	0.0000211746
	Lucio C. Tan Director	12,907,060 shares ₽516,282,400.00 (R)	Filipino	1.1882673537
	Lucio K. Tan, Jr. Director	2,000 shares ₽80,000.00 (R)	Filipino	0.0001841267
	Michael G. Tan Director	15,350 shares ₽614,000.00 (R)	Filipino	0.0014131726
	Deogracias N. Vistan Independent Director	100 shares ₽4,000.00 (R)	Filipino	0.0000092063
	Sub-total	13,083,513 shares ₽523,340,520.00 (R)		1.2045122103
	All Directors & Executive Officers as a Group	13,139,817 shares ₽525,592,680.00 (R)		1.2096957459

(3) Voting Trust Holders of 5% or More

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

(4) 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 was to be effected via a share-for-share swap. Under the approved terms, PNB would serve as the surviving entity whereby it would issue to Allied Bank shareholders 130 PNB shares for every Allied Bank common share and 22.763 PNB shares for every ABC preferred share. The PNB shares had an issue price of ₽70.00 per share.

On July 23, 2012, the Philippine Deposit Insurance Corporation (PDIC) granted its consent to the merger of PNB and Allied Bank pursuant to Sec. 21c of R.A. 3591, as amended (PDIC Charter), subject to certain conditions. Subsequently, the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP), in its Resolution No. 1270 dated August 2, 2012, approved the Plan of Merger and Articles of Merger, subject to certain conditions.

On January 17, 2013, the Securities and Exchange Commission (SEC) approved the Plan of Merger and Articles of Merger of PNB and Allied Bank. With this, the two banks successfully obtained all the necessary regulatory approvals to finally implement the merger. Thus, on February 9, 2013, PNB and Allied Bank merged into one bank.

PNB and Allied Bank merged to form a bigger and stronger bank that can compete more aggressively in the industry. The PNB-Allied Bank merger is an alliance, with each bank bringing its own strengths that can help generate significant opportunities and growth prospects for the new bank. With the merger, the new bank is now the fourth largest private domestic bank across all indicators and with the largest international footprint across Asia, Europe, the Middle East and North America.

(d) 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 Interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. Of the amount of direct credit accommodations to each of the Bank's DOSRI, 70.00% must be secured and 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 equity or 15.00% of the Bank's total loan portfolio, whichever is lower. As of March 31, 2013 , December 31, 2013, December 31, 2011 and December 31, 2010, the Bank was in compliance with such regulations.

Information related to transactions with related parties and with certain directors, officers, stockholders and related interests (DOSRI) is shown under Note 31 of the Audited Financial Statements of the Bank and subsidiaries, as replicated hereunder:

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1. **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 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of March 31, 2013 and December 31, 2012, the Parent Company was in compliance with such regulations.

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

	March 31, 2013	December 31, 2012
Total Outstanding DOSRI Accounts	₱5,803,352	₱2,650,526
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	1.82%	2.03%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	1.82%	2.03%
Percent of DOSRI accounts to total loans	1.82%	2.03%
Percent of unsecured DOSRI accounts to total DOSRI accounts	0.99%	3.29%
Percent of past due DOSRI accounts to total DOSRI accounts	0.00%	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	0.00%	0.00%

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 10.00% of a bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Details on significant related party transactions of the Group follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

	As of March 31, 2013		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Subsidiaries			
Receivables from customers		**₱564,000**	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 90 days Unsecured - ₱564.0 million with no impairment
Accounts receivable		**200,192**	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing; unsecured; payable on demand
Accrued interest receivable		**1,008**	Interest in receivables from customers
Deposit liabilities		**1,559,757**	With annual rates ranging from 0.10% to 3.00% and maturity terms ranging from 30 days to one (1) year
Bills payable		**1,076,050**	Foreign currency-denominated bills payable with fixed annual interest rate of 0.85% and maturity term of 180 days; unsecured
Accrued interest payable		**363**	Interest on deposit liabilities and bills payable
Due to other banks		**253,983**	Clearing accounts for funding and settlement of remittances
Due from other banks		**229,226**	With annual fixed interest rates ranging from 0.01% to 4.50% including time with maturities of up to 90 days
Operating lease		**203**	Advance rental deposit received for 2 years and 3 months
	Three Months Ended March 31, 2013		
Interest income	**₱5,993**		Interest income on receivable from customers
Interest expense	**3,173**		Interest expense on deposit liabilities and bills payable
Rental income	**5,960**		Rental income with lease terms ranging from 2 to 5 years and annual escalation rates ranging from 5.00% to 10.00%
Fees and commissions	**32**		Professional fees on service agreement
Other expense	**501**		Share in utilities expense
Securities transactions:			
Purchases	**688,645**		Outright purchase of securities
Sales	**361,458**		Outright sale of securities
Trading gains	**4,235**		Gain from sale of investment securities

	As of March 31, 2013		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Other Related Parties			
Receivable from customers		**₱5,757,756**	Loans with interest rates ranging from 0.50% to 16.50% and maturity terms ranging from 11 months to 25 years Secured - ₱2.8 billion and unsecured - ₱0.1 billion; without impairment Collaterals include bank deposits hold-out, real estates and chattel mortgages
Sales contract receivables		**105,750**	Arising from sale of investment property; title will be transferred upon full payment; non-interest bearing loan payable within one year Secured - ₱105.8 million; with no impairment Collateral pertains to investment property sold
Accrued interest receivables		**15,764**	Accrued interest of receivables from customers

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of March 31, 2013		
ʒills payable		**610,800**	With annual interest rates ranging from 5.00% to 5.50%; maturity terms ranging from 90 to 180 days; unsecured
Deposit liabilities		**4,120,300**	With annual interest rates ranging from 0.38% to 1.93% and maturity terms ranging from 30 days to one (1) year
Accrued interest payable		**4,951**	Interest on deposit liabilities and bills payable
Operating lease		**203**	Advance rental deposit received for 2 years and 3 months
Due from other banks		**2,343,552**	With annual fixed interest rates ranging from 0.01% to 4.50% including time with maturities of up to 90 days and savings with interest rate of 13.00%
Investment securities		**249,719**	49,943,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱249.0 million

	Three Months Ended March 31, 2013		
Interest income	**₱59,286**		Interest income on receivable from customers and due from other banks
Interest expense	**6,175**		Interest expense on deposit liabilities and bills payable
Rental income	**20,402**		Rental income with lease terms ranging from 2 to 10 years and annual escalation rates ranging from 5.0% to 10.0%
Rental expense	**3,251**		Monthly rent payments to related parties with terms ranging from 24 to 240 months
es and commissions expense	**2,164**		Expense on professional fees on service agreement
Securities transactions:			
Purchases	**11,539,297**		Outright purchase of securities
Sales	**1,425,198**		Outright sale of securities
Trading gains	**73,539**		Gain from sale of investment securities
Deposits	**76,539,438**		Deposits for the period
Withdrawals	**796,517**		Withdrawals for the period
Loan releases	**25,316**		Loan drawdowns
Loan collections	**2,524,276**		Settlement of loans and interest

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of December 31, 2012		
Subsidiaries			
Receivables from customers		₱564,000	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 31 days Unsecured - ₱564.0 million with no impairment
Accounts receivable		106,458	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing, unsecured, payable on demand
ʌccrued interest receivable		1,026	Interest on receivables from customers
Deposit liabilities		552,297	With annual rates ranging from 0.10% to 3.00% and maturity terms ranging from 30 days to one (1) year
Bills payable		863,579	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured
Accrued interest payable		3,473	Interest on deposit liabilities and bills payable
Due to banks		205,480	Clearing accounts for funding and settlement of remittances

	Year Ended December 31, 2012		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Interest income	₱28,271		Interest income on receivable from customers
Interest expense	12,772		Interest expense on deposit liabilities and bills payable
Other income	7,615		Rental income with lease term of three (3) years and annual escalation rate of 10.00%
Other expense	2,004		Share in utilities expense

	As of December 31, 2012		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Receivable from customers		₱2,873,011	Loans with interest rates ranging from 0.50% to 16.50% and maturity terms ranging from one (1) month to 25 years. Secured - ₱2.8 billion and unsecured - ₱0.1 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Sales Contract Receivables		105,750	Arising from sale of investment property Title will be transferred upon full payment Non-interest bearing loan payable within one year Secured - ₱105.8 million; with no impairment Collateral pertains to investment property sold
Accrued interest receivables		1,647	Interest on receivables from customers
Bills payable		554,175	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		1,272,976	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Due from other banks		196,977	Includes savings deposits with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱270.0 million.

	Year Ended December 31, 2012		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Interest income	₱154,464		Interest income on receivable from customers
Profit from asset sold	39,095		Gain from sale of investment property
Interest expense	10,626		Interest expense on deposit liabilities
Other income	16,830		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5.00% starting sixth year of the lease term
Securities transactions:			
Purchases	16,431,445		Outright purchase of securities
Sales	11,884,060		Outright sale of securities
Trading gains	19,017		Gain from sale of investment securities
Loan releases	512,941		Loan drawdowns
Loan collections	2,326,902		Settlement of loans and interest

The related party transactions shall be settled in cash. There are no provisions for credit losses for the three-month periods ended March 31, 2013 and 2012 in relation to amounts from related parties.

The compensation of the key management personnel follows:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Short-term employee benefits	₱69,755	₱33,837
Post-employment benefits	12,211	4,911
	₱81,966	₱38,748

The Parent Company and EPPI signed two JVA for the development of two properties under 'Real estate under joint venture (JV) agreement' by the Parent Company with book values of
₱1.2 billion. These two projects are among the Parent Company's strategies in reducing its non-performing assets.

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. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVA. This JVA does not fall as joint venture arrangement under PFRS 11.

Transactions with Retirement Plans

Management of the retirement funds of the Group is handled by the Parent Company's Trust Banking Group (TBG). The fair values and carrying values of the funds amounted to ₱2.3 billion and ₱1.3 billion, respectively, as of March 31, 2013 and December 31, 2012.

Relevant information on Funds' assets/liabilities as of March 31, 2013 and December 31, 2012 and income/expense for the three-month period ended March 31, 2013 and for the year ended December 31, 2012 are as follows:

	March 31, 2013	December 31, 2012
Investment securities:		
Held for trading	₱791,213	₱712,875
Available-for-sale	789,769	212,437
Held-to-maturity	66,397	68,000
Deposits with other banks	453,225	263,830
Deposits with PNB	334	50,792
Loans and other receivables	183,323	37,807
Total Fund Assets	₱2,284,261	₱1,345,741
Trust Fees Payable	₱–	₱754
Accrued Expense	891	–
Due to BIR	320	–
Total Fund Liabilities	₱1,211	₱754

Fund Income	March 31,2013 (Three Months)	December 31, 2012 (One Year)
Interest income	₱16,591	₱20,738
Trading gain	1,142	–
Dividend income	546	–
Unrealized gains on HFT (PNB)	–	271,049
Gains on sale of investment securities	–	72
	₱18,279	₱291,859
Fund Expense		
Trust fees	₱899	₱2,442
Other expenses	2,381	270
	₱3,280	₱2,712

As of March 31, 2013 and December 31, 2012, the retirement fund of the Group include 7,833,795 shares of PNB classified under HFT. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of March 31, 2013 and December 31, 2012, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP. Loans and other receivables include accrued interest amounting to ₱0.04 million as of March 31, 2013 and December 31, 2012 and income include interest on deposit with PNB amounting to ₱0.3 million and ₱1.0 million for the three-month periods ended March 31, 2013 and 2012, respectively, for the Group. Investments are approved by an authorized fund manager or officer of TBG.

Other fund managed by TBG

The TBG manages the sinking fund established by PSC to secure its borrowings with the Parent Company. As of March 31, 2013 and December 31, 2012, the sinking fund amounted to ₱5.3 billion and ₱5.2 billion, respectively (see Note 9).

The information relating to the DOSRI loans of the Group pertaining to years 2011-2012 are as follows:

	Consolidated			Parent Company		
	December 31 2012	December 31, 2011	January 1, 2011	**December 31 2012**	December 31, 2011	January 1, 2011
Total Outstanding DOSRI Accounts	**₱2,650,526**	₱4,916,441	₱2,191,313	**₱2,650,526**	₱4,916,441	₱2,191,313
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of DOSRI accounts to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**3.29%**	14.60%	23.95%	**3.29%**	14.60%	23.95%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	0.00%	**0.00%**	0.00%	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	0.00%	**0.00%**	0.00%	0.00%

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

	December 31, 2012		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Subsidiaries			
Receivables from customers		**₱564,000**	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 31 days Unsecured - ₱564.0 million with no impairment No collateral
Accounts receivable		**106,458**	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		**1,026**	Interest on receivables from customers
Deposit liabilities		**552,297**	With annual rates ranging from 0.1% to 3.0% and maturity terms ranging from 30 days to one (1) year
Bills Payable		**863,579**	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured No collateral
Accrued interest payable		**3,473**	Interest on deposit liabilities and bills payable
Due to Banks		**205,480**	Clearing accounts for funding and settlement of remittances
Interest income	**₱28,271**		Interest income on receivable from customers
Interest expense	**12,772**		Interest expense on deposit liabilities and bills payable
Other income	**7,615**		Rental income with lease term of three (3) years and annual escalation rate of 10%
Other expense	**2,004**		Share in utilities expense

Other Related Parties			
Receivable from customers		**2,873,011**	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years. Secured - ₱2.8 billion and unsecured - ₱0.07 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Sales Contract Receivables		**105,750**	From sale of investment property Title will be transferred upon full payment Non-interest bearing loan payable within one year Secured - ₱105.8 million; with no impairment Collateral pertains to investment property sold
Accrued interest receivables		**1,647**	Interest on receivables from customers
Bills payable		**554,175**	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		**1,272,976**	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Interest income	**154,464**		Interest income on receivable from customers
Profit from asset sold	**39,095**		Gain from sale of investment property

(Forward)

	December 31, 2012		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Interest expense	**₱10,626**		Interest expense on deposit liabilities
Other income	**16,830**		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5% starting sixth year of the lease term
Due from other banks		**₱196,977**	Includes savings deposits with interest rate of 0.13%
Investment securities		**270,212**	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱270.0 million.
Securities transactions:			
Purchases	**16,431,445**		Outright purchase of securities
Sales	**11,884,060**		Outright sale of securities
Trading gains	**19,017**		Gain from sale of investment securities
Loan releases	**512,941**		Loan drawdowns
Loan collections	**2,326,902**		Settlement of loans and interest

	December 31, 2011		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Due from banks		₱223,548	Clearing accounts for funding and settlement of remittances
Receivables from customers		600,000	Revolving credit lines with fixed annual interest rates ranging from 4.90% to 5.15% and maturity terms of less than 31 days Unsecured - ₱600.0 million with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Accounts receivable		28,364	Advances for working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		1,255	Interest on receivables from customers
Deposit liabilities		946,379	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Accounts payable		235	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		537	Interest on deposit liabilities
Due to Banks		250,360	Clearing accounts for funding and settlement of remittances
Interest income	₱17,860		Interest income on receivable from customers
Interest expense	18,576		Interest expense on deposit liabilities and bills

			payable
Other income	7,228		Rental income with lease term of three (3) years and annual escalation rate of 10%
Other expense	2,004		Share in utilities expense
Other Related Parties			
Receivable from customers		4,781,525	Loans with interest rates ranging from 1.0% to 15.0% and maturity terms ranging from six (6) months to 25 years Secured - ₱4.1 billion and unsecured - ₱0.7 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages and collateral participation certificates
Accrued interest receivables		28,958	Interest on receivables from customers
Deposit liabilities		653,960	With annual rates ranging from 0.5% to 1.44% and maturity terms ranging from 30 days to one (1) year
Interest income	118,917		Interest income on receivable from customers
Interest expense	5,356		Interest expense on deposits and bills payable
Other expense	4,774		Marketing expense - Joint Venture

(Forward)

	December 31, 2011		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other income	₱16,830		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rates of 5% starting sixth year of the lease term.
Due from other banks		₱163,594	Includes savings deposit with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS Investments with allowance for impairment loss of ₱270.0 million.
Securities transactions:			
Purchases	12,718,836		Outright purchase of securities
Sales	11,049,302		Outright sale of securities
Trading loss	(125,414)		Loss from sale of investment securities
Loan releases	3,222,193		Loan drawdowns
Loan collections	545,419		Settlement of loans and interest

	December 31, 2010		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Due from banks		₱23,615	Clearing accounts for funding and settlement of remittances
Interbank loans receivable		28,987	With annual interest rate of 0.79% and maturity term of 30 days; unsecured
Accounts receivable		28,987	Advances for additional working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		8	Interest on receivables from customers
Due to banks		14,004	Clearing accounts for funding and settlement of remittances
Deposit liabilities		713,963	With annual interest rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Bills payable		1,676,160	Foreign currency-denominated bills payable with interest rate ranging from 0.25% to 1.07% and maturity terms from one (1) to three (3) months; unsecured
Accounts payable		291	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		531	Interest on deposit liabilities
Interest income	₱193		Interest income on interbank loans receivables
Interest expense	15,496		Interest expense on deposit liabilities and bills payable

Other income	5,856		Rental income with lease term of three (3) years and annual escalation rate of 10.0%
Utilities expense	1,606		Share in utilities expense
Other Related Parties			
Receivable from customers		2,191,313	Loans with interest rates ranging from 2.5% to 16.5% and maturity terms ranging from one (1) month to 25 years Secured - ₱1.7 billion and unsecured - ₱0.5 million with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages and collateral participation certificates
Due from other banks		77,502	Includes savings deposit with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱269.0 million
Accrued interest receivables		7,918	Interest on receivables from customers

(Forward)

	December 31, 2010		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Deposit liabilities		₱1,020,194	With annual rates ranging from 0.5% to 1.44% and maturity terms ranging from 30 days to one (1) year
Interest income	₱147,210		Interest income on receivable from customers
Interest expense	10,565		Interest expense on deposit liabilities
Other income	16,830		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5.0% starting sixth year of the lease term
Other expense	11,916		Marketing expense – Joint Venture
Loan releases	153,091		Loan drawdowns
Loan collections	222,492		Settlement of loans and interest

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2012, 2011 and 2010.

The compensation of the key management personnel follows:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Short-term employee benefits	**₱135,347**	₱152,623	₱161,808	**₱118,187**	₱88,996	₱86,809
Post-employment benefits	**19,642**	14,683	24,908	**19,138**	12,109	21,227
	₱154,989	₱167,306	₱186,716	**₱137,325**	₱101,105	₱108,036

The Parent Company and EPPI signed two JVA for the development of two properties under ‘Real estate under joint venture (JV) agreement’ by the Group and Parent Company with book values of ₱1.2 billion. EPPI and the Group are under common control. 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.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). As of December 31, 2012, the fair values and carrying values of the funds amounted to ₱1.32 billion for the Parent Company and ₱1.35 billion and ₱1.34 billion for the Group, respectively.

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, related parties, the communities affected by the Bank's activities and its various publics; with professionalism among its Board of Directors, executives and other employees of the Bank in managing the company, its subsidiaries and affiliates, and respect for the laws and regulations of the countries affecting its businesses. Internally, it follows a philosophy of rational checks and balances as well as a structured approach to its operating processes.

The Bank's operations is managed through a properly established organizational structure and adequate policies and procedures embodied in manuals approved by the management committees and the Board. These manuals are subjected to periodic review and update to be consistent with new laws and regulations and generally conform to international best practices. The Corporate Governance Framework of the Bank is embodied in the Corporate Governance Manual already aligned with recently issued regulatory guidelines and new reportorial disclosures for entities within the group structure and significant transactions among related parties.

The Bank is a proud recipient for two consecutive years (2011-2012) 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.

Board Committees

The seven Board Committees have been instrumental in setting the tone for the corporate governance practices of the Bank.

- The Executive Committee was created to perform the functions and duties as the Board may confer upon it in accordance with law and the By-Laws of PNB.

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

- The Board Overseas Oversight Committee was created in June 2012 to provide oversight on the international operations and to preserve their long-term viability consistent with the Bank's strategic goals.

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

- The Corporate Governance/Nomination Committee ensures the Board's effectiveness and adherence to corporate governance principles and guidelines and the selection of members of the Board and senior executives of the Bank as well as in the appointment of the members of the respective Board committees.

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

- The Trust Committee provides direction for the trust business and management of trust assets, fiduciary accounts, investments and trust services.

Board of Directors

The Board of Directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk management strategy, corporate governance and corporate values. 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 and profitability 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 Board of Directors is currently comprised of 15 members, including four Independent Directors (Chairman Florencia G. Tarriela, Directors Deogracias N. Vistan, Felix Enrico R. Alfiler and Christopher J. Nelson) who are highly qualified business professionals with excellent educational credentials. The member of the Board of Directors undergo continuing training and collectively hold a broad range of expertise and related banking experiences that provide value to the strengthening and upholding of good corporate governance practices in the Bank. In the Board, two directors were inducted "fellow" and one director certified as an "associate" by the Institute of Corporate Directors, in recognition of their distinguished reputation and commitment to the highest standards of corporate governance principles, ethics and social responsibility.

Recognizing the importance of the role of independent directors, the Board has elected the independent directors to act as Chairman of the Board, the Executive Committee, the Corporate Governance/Nomination Committee, the Board ICAAP Steering Committee, the Board Overseas Oversight Committee, Board Audit and Compliance Committee and the Trust Committee. The independent directors are also members of the Risk Oversight Committee wherein the Chairman is a non-executive director and the former president of a government bank with a universal banking license. In these Board Committees, the independent directors play an active role in the formulation of the business strategies and priorities of the Bank as stipulated in the Board-approved Five Year Strategic Business Plan of the Bank, subsidiaries and its affiliates. The Board and the Committees continue to review and strengthen the corporate governance policies to adopt consistency in the corporate governance framework in the Bank, its 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 and the Chief Operations 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 and Awards Committee, Information Technology Evaluation Committee, Senior Management ICAAP Steering Committee, AML Review Committee and the Integration Monitoring Committee. Committee meetings are conducted in a manner that ensures open communication, meaningful participation and timely resolution of issues. The business plans, significant issues and its resolutions are escalated to the level of the Board as part of a strong culture of accountability and transparency embedded in the entire organization.

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

Compliance System

The Bank actively promotes the safety and soundness of its operations through a compliance system that fully adheres to banking laws, rules and regulations and maintains an environment that is governed by high standards and best practices of good corporate governance. This is achieved primarily through the formulation of policies and procedures, an organizational structure and an effective compliance program that will support the Bank's 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 and its domestic and foreign branches, offices, subsidiaries and affiliates. To further strengthen good corporate governance, the Board of Directors appointed the Chief Compliance Officer as the Corporate Governance Executive tasked to assist the Board and the Corporate Governance Committee with the discharge of their corporate governance oversight functions.

Global Compliance Group continues to evolve to reinforce the Bank’s compliance system with the creation of the Global Compliance Testing Review Division to institutionalize compliance testing reviews among the bank units, branches and business vehicles. This is aimed to complement the other three major divisions namely: Global AML Compliance Division, Regulatory Compliance Division, and Business Vehicle Compliance Division. Moreover, a Corporate Governance Monitoring Unit was established to provide support to the Chairman of the Board, through the Chief Compliance Officer as the designated Corporate Governance Executive.

The Bank’s existing Compliance Program defines the seven key elements of an effective compliance framework with a proactive Board and executive level oversight, effective compliance organizational structure, standardized policies and procedures across all businesses, periodic monitoring and assessment, robust MIS and compliance reporting, comprehensive compliance and AML awareness training and independent compliance testing reviews. The Compliance Program also incorporates the new policies, laws and regulations and enhancements to corporate standards which Philippine National Bank, as the Parent Bank, and its local and foreign branches, subsidiaries and affiliates are required to be fully aware of. The Compliance Program has been implemented consistently in the various bank units, branches and business vehicle entities.

The Bank’s AML/CFT Policy Guidelines and Money Laundering and Terrorist Financing Prevention Manual are two major manuals approved by the Board in November 2012. The Bank is fully committed to adhere to existing and new AML laws, regulations, rules and implementing guidelines issued by both local and foreign regulators.

The Bank has policies and procedures embracing the compliance framework, the corporate governance guidelines and the AML Risk Rating System issued by the BSP and foreign regulators on AML/CFT laws and regulations. With a comprehensive compliance system effectively implemented enterprise-wide, there has been no material deviation noted by the Chief Compliance Officer.

FINANCIAL STATEMENTS

The Audited Financial Statements of the Bank for the Years ended 31 December 2011 and 2012 and 31 March 2013 are included as exhibits.

EXPENSES OF ISSUANCE AND DISTRIBUTION

All expenses relative to the issuance and listing of the Shares shall be for the account of PNB, estimated as follows:

Nature	: Amount
SEC Registration Fees	P 8,061,662.18
Documentary Stamp Taxes	84,792,500.00
Cost of Printing	50,000.00
Listing Fees	33,248,660.00

There are no premiums to be paid by PNB on any policy to insure or indemnify director or officers against any liabilities they may incur in the registration, offering or sale of these securities.

SIGNATURES

Pursuant to the requirements of the Code, this registration statement is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati City on AUG 12 2013 2013.

By:

OMAR BYRON T. MIER Chief Executive Officer	**ANTHONY Q. CHUA** Chief Operations Officer
DORIS S. TE Corporate Secretary	**ZACARIAS E. GALLARDO, JR.** Chief Financial Officer/Controller

SUBSCRIBED AND SWORN to before me this _____ day of AUG 12 2013 2013 affiants exhibiting to me their Competent Evidences of Identity, as follows:

NAMES	Competent Evidence of Identity/Date/Place of Issue
Omar Byron T. Mier	Phil. Passport No. XX377338/May 21, 2009/ Manila
Anthony Q. Chua	Phil. Passport No. EB0034396/March 26, 2010
Zacarias E. Gallardo, Jr.	Phil. Passport No. EB1931075/Feb. 16, 2011/Manila
Doris S. Te	Phil. Passport No. EB0993396/Sept. 20, 2010/ Manila

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ADRIANNE MARIE C. ALAZAS
Notary Public until 31 December 2013
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 3678698, Makati, 10 January 2013
IBP No. 911819, Makati, 4 January 2013
Roll No. 58449, Commission No. 446

Exhibit I

PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2012

Branch Name	Address
Metro Manila	
Ayala Avenue	6772 TMBC Bldg., Ayala Avenue, Makati City
Caloocan	Gen. San Miguel St., Brgy 4 Zone I Sangandaan District II, Caloocan City
Caloocan-A. Mabini	451 A. Mabinil corner J. Rodriguez St., Caloocan City
Cubao	Aurora Blvd. cor. G. Araneta St., 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 Piñas	#19 Alabang Zapote Road Pamplona II, Las Pinas City
Main	G/F PNB Financial Center, Pres. Diosdado Macapagal Blvd., Pasay City
Makati Poblacion	1204 JP Rizal St., corner Angono & Cardona Streets, Makati City
Malabon	F. Sevilla Blvd. 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. Piñahan, Diliman, Quezon City
Ortigas	G/F JMT Bldg. ADB Avenue, Ortigas Center, Pasig City
Pasay City	2976 Mexico Ave., Taft Ave. Extention, Pasay City
Petron Mega Plaza	G/F Petron Bldg., 358 Sen. Gil Puyat Avenue, Makati City
PGH	PGH Compund, Taft Avenue, Ermita, Manila
Quezon Circle	Elliptical Road cor. Kalayaan Avenue, Diliman, Quezon City
Rizal Avenue	Rizal Avenue corner Saturnino Herrera St., Sta Cruz, Manila
Salcedo Village	G/F LPL Mansions Condominium, 122 L.P. Leviste St., Salcedo Village, Makati City, 1227
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

Branch Name	
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, Balanga City, Bataan, 2100
Baliuag	15 J.P. 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	Corner Maharlika Highway and Cabatuan Road, Cauayan City, Isabela 3305
Concepcion	A. Dizon St., San Nicolas, Poblacion Concepcion, Tarlac 2316
Dagupan	A.B. Fernandez Avenue, Dagupan City 2400
Dau	Pacencia St., Dau, Mabalacat, Pampanga 2010
Gapan	Tinio St., San Vicente, Gapan, Nueva Ecija
Guagua	Sto. Cristo, Guagua, Pampanga 2003
Guimba	Corner Danzalan & Juliano Sts., Sta. Veronica District, Guimba, Nueva Ecija, 3115
Iba	1032 Magsaysay Avenue, Iba, Zambales
Ilagan	Old Capitol Building, Osmena, Ilagan, Isabela 3300
La Union	Quezon Ave, City of San Fernando,. La Union 2500
Laoag	Brgy 10, San Jose, Trece Martires St corner J. P. Rizal St., Laoag City, 2900
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 St., Vigan City, Ilocos Sur 2700

Branch Name	
Southern Luzon	
Bacoor	Km. 17 Aguinaldo Highway, Bacoor, Cavite
Balayan	147 Plaza Mabini St., Bargy. 4, Balayan, Batangas
Batangas	Corner P. Burgos St. and C. Tiron St., Batangas City, Batangas
Biñan	202 J. Gonzales Street, Poblacion, Biñan, Laguna
Calamba	P. Burgos St., 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	Corner Highway 1, and 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
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., Burabod, Sorsogon City
Sta Cruz	P. Guevarra Ave., Sta. Cruz Laguna
Tabaco	Ziga Avenue corner Bonifacio St., Tayhi, Tabaco City

Branch Name	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 R. Yulo St., binalbagan, Negros Occidental
Borongan	Real St., Brgy Songco, Borongan City, Eastern Samar
Cadiz	Cor. Juan Luna-Cabahug Streets, Cadiz City, Negros Occidental
Calbayog	727 National Highway, Brgy. Obrero, Calbayog City
Catarman	Cor. Jacinto & Carlos P. Garcia St., Brgy Narra, Catarman, Nothern Samar
Catbalogan	Imelda Park, Capitol Site, Catbalogan. Samar
Cebu	Cor. MC Briones & Jakosalem Sts., Cebu City
Dumaguete	Silliman Avenue corner Real Street, Dumaguete City, Negros Oriental
Iloilo	Corner General Luna and Valeria Sts., Iloilo City
Kabankalan	Cor. Guanzon St. and NOAC National Highway, Kabankalan City, Negros Occidental
Kalibo	# 508 Pastrana St., Kalibo, Aklan
Lapu-Lapu	Manuel L. Quezon National Highway, Pajo, Lapu-lapu City
Luzuriaga	Corner Araneta and Luzuriaga Sts., Bacolod City
Maasin	Cor. Allen & Juan Luna St., Brgy. Tunga-tunga, Maasin City, Southern Leyte
Naval	Cor. Ballesteros and Caneja Sts., Naval, Biliran Province
Ormoc	Cor. A.Bonifacio and I.Cataag Sts., Ormoc City
Plaza Libertad	J.M. Basa St., 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. Sto. Nino and Justice Romualdez Sts., Tacloban City
Tagbilaran	C.P. Garcia Ave. cor. J.A. Clarin St., Poblacion, 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

Branch Name	Address
Mindanao	
Agusan Del Sur	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 Avenue, Digos City
Dipolog	Cor. General Luna and Carlos P. Garcia Sts., Dipolog City
General Santos	City Hall Drive, South Osmena St., General Santos City
Gingoog	National Highway, Brgy. 23, Gingoog City, Misamis Oriental
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	LBP bldg., Fortich St., Poblacion, Malaybalay, Bukidnon
Mambajao	Gen. B. Aranas St., Poblacion, Mambajao Camiguin
Marawi & Marawi Extension	PNB Building, Perez St. Marawi City, 9700, Lanao del Sur
Mati	Rizal Extension, Mati, Davao Oriental
Midsayap	Quezon Avenue, Pob. 6, Midsayap, North Cotabato
Oroquieta	Sen. Jose Ozamiz Street, Lower Lamac, Oroquieta, Misamis Occidental
Ozamis	Rizal Ave., Ozamiz City
Pagadian	Rizal Avenue, Balangasan District, Pagadian City, Zamboanga del Sur
Surigao	00045 Rizal St., Surigao City 8400, Surigao del Norte
Tagum	Rizal St., Magugpo Poblacion., Tagum City
Tandag	Donasco St., Tandag, Surigao del Sur
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, 2012

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	191,291	05/15/2017
Ali Mall	Alimall II Building, Gen. Romulo Avenue, Cor P. Tuazon Blvd., Cubao, Quezon City	94,190	12/31/2014
Almanza	Hernz Arcade, Alabang-Zapote Road Almanza, Las Pinas City 1750	133,873	03/31/2013
Antipolo	89 P. Oliveros St., Kapitoloyo Arcade, San Roque, Antipolo City 1870	56,724	12/31/2014
Bangkal	G/F E. P. Hernandez Bldg., 1646 Evangelista St., Bangkal, Makati City	103,440	11/01/2017
Batasan Pambansa	Main Entrance, Batasan Pambansa Complex, Constitutional Hills, Quezon City		[1]
Bel-Air	52 Jupiter Street, Bel-Air, Makati City 1209	336,459	06/07/2021
Benavidez	Unit G-1D, G/F BSA Mansion, 108 Benavidez St., legaspi Village, Makati City	104,987	06/14/2016
BF Homes-Aguirre Avenue	47 Aguirre Avenue cor. Tirona Street, B.F. Homes, Parañaque City 1718	92,060	08/01/2017
Bicutan	VCD Building, 89 Dona Soledad Avenue Betterliving Subdivision, Bicutan Paranaque City	71,369	05/24/2016
Binondo	452 San Fernando corner Elcano St., Binondo, manila	169,400	12/31/2016
Blumentritt	G/F KASSCO Bldg., cor. Lico and Cavite Streets, Sta. Cruz, Manila		[1]
Bonifacio Global City	PNB Shop 2, The Luxe Residences 28th St., cor 4th Ave., Bonifacio Global City	142,318	11/15/2014
BSP Sub Unit	G/F Cafetorium Bldg. BSP Complex A. Mabini or., P. Ocampo Sts., Malate, Manila	114,522	06/30/2013
Cainta	G/F RRCG Transport Building, Km. 18 Ortigas Avenue Extension, Brgy. San Isidro, Cainta, Rizal.	77,315	10/23/2016
Cartimar-Taft	G/F SATA Corp. Bldg. 2217 Taft Avenue, Pasay City	94,610	10/31/2014
CM Recto	Unit 6 & 7 PSPCA Bldg. No. 2026-2028 C.M. Recto Avenue, Quiapo, Manila	127,939	03/31/2015
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	12/01/2014
Dapitan Gelinos	G/F North Forbes Place 1221 Gelinos St., Sampaloc, Manila	118,280	05/04/2014

[1] Contract of Lease renewal is still in process

BRANCH	ADDRESS	Monthly Rent (in Pesos)	Expiration of Lease
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	08/31/2013
Divisoria	869 Sto. Cristo Srteet, Binondo, Manila	100,800	09/07/2015
E. Rodriguez	97 ECCOI Building E Rodriguez Sr Avenue Brgy Tatalon, Quezon City 1102	57,934	08/31/2016
Eastwood City	MDC 100 Building Mezzanine Level Unit M3 E. Rodriguez Ave. cor. Eastwood Ave., Brgy. Bagumbayan, Libis, Quezon City	267,475	11/11/2018
Edison Buendia	Visard Bldg, #19 Sen. Gil Puyat Ave., Makati City	70,430	02/07/2016
Edsa Roosevelt	1024 Global Trade Center Bldg. Edsa, Quezon City	148,694	01/31/2014
Ermita	1343 A. Mabini Street, Ermita, Manila	147,393	09/30/2016
Escolta	G/F Regina Building, Escolta, Manila	184,063	09/30/2015
España	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	03/14/2015
Ever Gotesco	Lower G/F Stall No. 20, Ever Gotesco Commonwealth, Quezon City	190,426	03/06/2015
Fairview	No. 41 Regalado Ave. West Fairview, Quezon City	103,365	05/30/2016
Fort Bonifacio- Infinity	G/F 101, The Infinity Tower, 26th Street, Fort Bonifacio, Taguig City	254,036	05/15/2016
Fort Bonifacio- Mckinley Hill	G/F Unit B, McKinley Hill-810 Building, Upper McKinley Road, McKinley Town Center, Fort Bonifacio, Taguig City	403,080	04/07/2016
Frisco	Unit E/F. MCY Bldg. #136 Roosevelt Ave. SFDM, Quezon City	40,788	08/19/2014
FTI	Lot 52 G/F New Admin Building, FTI Complex, Taguig City	97,722	10/31/16
Galas	20 A. Bayani St., corner Bustamante, Galas, Quezon City	98,914	05/31/2016
Gil Puyat	G/F Burgundy Corporate Tower 252 Sen Gil Puyat Ave. Makati City	236,750	05/14/2016
Gilmore	Gilmore IT Center No. 08 Gilmore Ave., cor 1st st., New Manila, Quezon City	228,911	12/31/2014
Greenhills	G/F One Kennedy Place, Club Filipino Drive, Greenhills, San Juan City	204,332	03/15/2015
GSIS	Level 1, GSIS Banking Center, GSIS Building, Pasay City	79,138	05/31/2013
Guadalupe	PACMAC Bldg. 23 Magsaysay Avenue, Guadalupe Nuevo, Makati City	80,187	09/01/2017
Harrison Plaza	RMSC Bldg. A. Adriatico St., Malate Manila		1/

1/ Contract of Lease renewal is still in process

BRANCH	ADDRESS	Monthly Rent (in Pesos)	Expiration of Lease
Intramuros	G/F MTFI Bldg. A. Soriano Ave. cor Arzobispo St., Intramuros Mla.	140,069	06/30/2014
Juan Luna	451 Juan Luna Street, Binondo, Manila		[1/]
Kapasigan	Emiliano A. Santos Bldg., A. Mabini cor. Dr. Sixto Antonio Avenue, Pasig City	140,872	09/30/2015
Katipunan	335 Agcor Bldg., Katipunan Ave., Loyola Heights, Quezon City	176,223	12/31/2016
Lagro	JTM Bldg., Regalado Ave. Neopolitan Subd., North Fairview, Quezon City	130,000	05/31/2013
Legaspi Village	G/F First Life Center 174 Salcedo St., Legaspi Village, Makati City	126,001	10/14/2014
Leon Guinto	G/F Marlow Bldg. 2120 Leon Guinto St., Malate Manila	116,377	07/15/2015
Luneta	NHI Compound, T.M. Kalaw St., Ermita, Manila	40,000	04/26/2018
Mabuhay Rotonda	G/F EU State Tower, #30 Quezon Avenue, Quezon City 1113	106,431	05/30/2015
Marikina	Shoe Avenue cor. W. Paz Street, Sta. Elena, Marikina City 1800		[1/]
Marulas	8 AGS Bldg., Mc Arthur Highway Marulas, Valenzuela City	37,171	06/14/2016
Masinag	Silicon Valley Bldg., 169 Sumulong Highway, Mayamot, Antipolo City	65,228	12/31/2016
Monumento	419 D & I Building, Edsa, Caloocan City	104,675	06/30/2017
Muntinlupa	G/F Arbar Building, National Highway, Poblacion Muntinlupa City	90,994	06/19/2014
MWSS	MWSS Compound. Katipunan Road, Balara, Quezon City	102,790	12/31/2016
Naga Road Las Pinas	Naga Road, Pulang Lupa, Las Piñas City	42,461	04/12/2022
NAIA I	Arrival Area Lobby, NAIA Terminal 1, Pasay City	25,874	04/01/2013
NFA	SRA Building, Brgy. Vastra, North Avenue, Quezon City	37,266	06/01/2016
Novaliches	513 Quiino Highway Talipapa Novaliches, Quezon City	45,063	02/24/2015
NPC	Agham Road, East Triangle, Diliman, Quezon City		[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	09/30/2014
Pasig Santolan	Amang Rodriguez Ave., Brgy. Dela Paz, Santolan, Pasig City	83,775	12/07/2013
PCSO	Philippine International Convention Center - CCP Complex, Roxas Blvd., Pasay City	64,980	10/21/2012
Pioneer	123 Pioneer Street, Mandaluyong City	100,067	04/14/2014
Plaza Sta Cruz	740 Florentino Torres Street, Sta. Cruz, Manila 1003	175,107	11/30/2022

[1/] Contract of Lease renewal is still in process

BRANCH	ADDRESS	Monthly Rent (in Pesos)	Expiration of Lease
Port Area	Bureau of Customs Compount, Port Area South Hasrbor, Manila	76,267	11/01/2013
Pritil	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	06/01/2016
Retiro	422 N.S. Amoranto St. Edificio Enriqueta Bldg. Sta. Mesa Heights, Quezon City	141,103	04/15/2013
Rosario-Pasig	Unit 117-118 G/F Ever Gotesco Mall, Ortigas Extension, Pasig City		1/
Roxas Blvd	Suite 101 CTC Bldg., 2232 Roxas Boulevard, Pasay City 1300	136,088	02/28/2017
San Juan	213 F. Blumentritt St. cor. Lope K Santos, San Juan City	66,304	03/31/2013
Shangrila	Unit AX 116 P3 Carpark Bldg.Shangri-la Annex Plaza Mall, EDSa Corner Shaw Blvd. Mandluyong City	137,974	09/30/2015
SSS Diliman	G/F SSS Building., East Avenue Diliman, Quezon City	95,483	02/28/2013
Starmall Alabang	Upper Ground Level, Starmall Alabang, South Superhighway, Alabang, Muntinlupa City, 1770	69,616	01/01/2016
Sucat	G/F Kingslandn Bldg., Dr. A. Santos Avenue Sucat, Paranaque	117,065	10/31/2014
Taft Ave	Marc 1 Building 1973 Taft Avenue, Malate, Manila	99,304	06/17/2016
Tanay	Tanay New Public Market Road, Brgy Plaza Aldea, Tanay Rizal	44,000	10/30/2017
Tandang Sora	102 cor. San Miguel Village, Pasong Tamo, Tandang Sora Quezon City	61,600	09/01/2016
Taytay	#2 Kadalagahan Street, Brgy. Dolores, Taytay, Rizal 1920	87,000	03/04/2016
Timog	Ground Floor NEWGRANGE 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	08/31/2016
U.N. Avenue	G/F UMC Building, 900 U.N. Avenue, Ermita, Manila	79,135	11/30/2017
UP Campus	NO. 3 Apacible Street, UP Campus, Diliman, Quezon City 1101		1/
Villamor Air Base	G/F Concessionaires Bldg. Paredes St., Villamor Airbase, Pasay City		1/

1/ Contract of Lease renewal is still in process

BRANCH	ADDRESS	Monthly Rent (in Pesos)	Expiration of Lease
Northern Luzon			
Abanao	90 NRC Building, Abanao Street, Baguio City	94,481	10/08/2016
Apalit	Mc Arthur Highway, San Vicente, Apalit, Pampanga	11,051	07/31/2018
Balagtas	G/F D & A Bldg., Mc Arthur Highway, San Juan, Balagtas, Bulacan	58,498	06/30/2013
BEPZ	Luzon Avenue Bataan Economic Zone, Mariveles, Bataan 2106	48,616	03/07/2019
Bontoc	Ground Floor, New Government Commercial Center, Bontoc, Mountain Province	27,030	09/11/2016
Camiling	Rizal St. Poblacion, Camiling, Tarlac 2306	78,750	05/18/2017
Centro Ilagan	ZARA'S BUILDING, RIZAL ST., CENTRO, ILAGAN, ISABELA 3325	31,500	08/04/2013
Clarkfield	Bethaphil 3 Clark Center 2 Jose Abad Santos Ave. Clarkfield, Pampanga	94,220	05/31/2019
Dinalupihan	BDA Building, San Ramon High-way, Dinalupihan, Bataan 2110	53,208	03/20/2017
Dolores	Units 4 & 5 G/F Peninsula Plaza Bldg. Mc Arthur Hi-way Dolores City of San Fernando, Pampanga	84,125	05/01/2014
East Gate City Walk	East Gate City Walk Buidling Olongapo-Gapan Highway San Jose City of San Fernando Pampanga	58,731	05/15/2013
La Trinidad	KM 5, Brgy. Balili, Benguet State University (BSU) Compound, La Trinidad Benguet 2601	114	10/06/2012
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	03/28/2016
Magsaysay Avenue	G/F Lyman Ogilby Centrum Building, 358 Magsaysay Avenue, Baguio City 2600	91,122	06/30/2017
Narvacan	Municipal Hall Annex Building, Sta.Lucia, Narvacan, Ilocos Sur	55,000	09/01/2017
North Zambales	Brgy Hall Poblacion South, Sta. Cruz, Zambales 2213	15,000	12/31/2017
Orani	Yneco Building, McArthur Highway, Centro I, Orani, Bataan 2112	27,940	02/01/2014
Pasuquin	Farmers' Trading Center, Poblacion , Pasuquin, Ilocos Norte	20,000	02/12/2022
Robinsons Pulilan	Robinsons Supermarket Pulilan, Maharlika Highway, Cutcut, Puilan, Bulacan	40,835	12/21/2014
San Jose Del Monte	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	03/01/2023
Sangitan	R. Macapagal Building, Brgy Dicarma, Maharlika Hi-way, Cabanatuan City	47,432	08/31/2013

BRANCH	ADDRESS	Monthly Rent (in Pesos)	Expiration of Lease
Solano	Benigno Aquino Avenue, Poblacion South Solano, Nueva Vizcaya	47,754	08/31/2012
Sta. Maria	104 Jose Corazon De Jesus St., Poblacion, Sta. Maria, Bulacan	77,359	09/30/2013
Subic	Lot 5, Retail 2, Times Square Mall, Sta. Rita Road, Subic Bay Freeport Zone, Olongapo City, Zambales 2222	74,886	10/09/2014
Tuao	G/F Tuao Municipal building, Ward II, Tuao, Cagayan 3528	5,000	[1]
Tabuk	Poblacion Centro, Tabuk, Kalinga 3800	28,300	05/31/2015
Southern Luzon			
Albay Capitol	ANST II Bldg., Rizal St., Old Albay, Legaspi City	65,135	06/30/2014
Atimonan	Our Lady of the Angels Parish Compound, Quezon St. Atimonan Quezon	19,892	07/16/2015
Bauan	G/F, ADD Bldg., J.P. Rizal St., Poblacion, Bauan, Batangas	36,004	07/11/2016
Boac	Gov. Damian Reyes St Brgy Murallon Boac Marinduque	31,208	06/30/2014
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	103,355	02/16/2016
Cavite-Dasmariñas	G/F, LCVM Bldg., Aguinaldo Highway Zone IV, Damarinas City, Cavite	142,865	12/31/2015
CEPZ	General Trias Drive, Rosario, Cavite	27,564	01/01/2016
Goa	Corner Rizal Street & San Juan Bautista Street, Goa, Camarines Sur	32,923	08/31/2012
Imus	G/F J. Antonio Building, 1167 Aguinaldo Highway, Bayan Luma 7, Imus, Cavite	155,157	11/01/2016
Lemery	Humarang Bldg, Ilustre Ave. cor. P. De Joya St., Lemery, Batangas	57,083	06/30/2016
Ligao	Quililan's Bldg., San Jose St., , Dunao, Ligao City	59,473	09/30/2017
Maharlika	Ground Floor Kadiwa Building, Brgy Maharlika, Sta Cruz Marinduque	18,301	06/20/2015
Naic	P. Poblete Street, Brgy. Ibayo Silangan Naic, Cavite	69,951	02/15/2017
Paseo De Sta Rosa	Blk 5 Lot 3B Sta. Rosa Estate 2-A, Balibago-Tagaytay Road, Bo. Sto. Domingo, Sta Rosa City, Laguna	155,538	06/30/2016
Pili	Old San Roque, Pili, Camarines Sur	54,966	08/31/2012
Pinamalayan	G/F, San Agustin Bldg., Mabini St., Zone IV, Pob., Pinamalayan, Oriental Mindoro	43,502	10/01/2020
Polangui	National Road, Brgy. Ubaliw, Polangui, 4506 Albay	11,297	04/30/2013

[1] Contract of Lease renewal is still in process

BRANCH	ADDRESS	Monthly Rent (in Pesos)	Expiration of Lease
Romblon	SAL Bldg., Republika St. Brgy. 1, Romblon, Romblon	16,000	10/12/2014
Siniloan	G. Redor St. Siniloan Laguna	64,264	01/17/2016
Sta Rosa	National Highway, Balibago City of Sta. Rosa, Laguna	94,833	07/01/2016
Tagaytay	Vistamart Bldg., Gen. E. Aguinaldo Highway, Mendez Crossing West, Tagaytay City, Cavite	79,993	11/01/2019
Tanauan	G/F V. Luansing Bldg., J.P Laurel Highway, Brgy. Darasa, Tanauan City, Batangas	80,384	08/22/2016
UP Los Banos	Lanzones Street, UPLB College, Los Baños, Laguna 4031	4,176	02/15/2015
Virac	Quezon Ave., Salvacion, Virac, Catanduanes 4800		1/
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		1/
Baybay	Magsaysay Avenue, Baybay City, Leyte	10,000	12/24/2017
Bogo	Cor. San Vicente & R. Fernan Sts., Bogo City, Cebu	23,098	04/15/2016
Centro Mandaue	Gaisano Grand Mall of Centro Mandaue, A. Del Rosario Street, Mandaue City	80,635	02/28/2017
De Leon	Ground Floor, ATM Bldg., Corner Ledesma Jalandoni Sts., Iloilo City	84,672	06/30/2014
Downtown Tacloban	Washington Bldg., Rizal Ave., Tacloban City	112,179	10/22/2016
Fuente Osmeña	BF Paray Bldg., Osmena Blvd., Cebu City	134,400	05/26/2013
Guihulngan	G/F Guihulngan Public Market, S. Villegas St., Guihulngan, 6214 Negros Oriental	12,118	02/09/2015
Guiuan	San Nicolas St., Guiuan, Eastern Samar	21,053	11/01/2012
Island City Mall Tagbilaran	UG33-34, Island City Mall, Dampas District, Tagbilaran City	62,106	07/31/2016
Jaro	No. 8 Lopez Jaena Street, Jaro, Iloilo City	125,537	05/02/2016
La Carlota	Corner La Paz and Rizal Streets, La Carlota City, Negros Occidental	37,236	05/31/2016
La Paz	G/F Inayan Building, Rizal Street, La Paz, Iloilo City	50,154	12/31/2013
Lahug	Juanita Building cor. Escario Street & Gorordo Avenue, Cebu City	43,420	02/07/2016
Mandaue	JD Bldg., Lopez Jaena St., Hi-way, Tipolo, Mandaue City, Cebu	95,551	04/15/2015
MEPZ	1st Avenue, Mactan Economic Zone, Ibo, Lapulapu City		1/

1/ Contract of Lease renewal is still in process

BRANCH	ADDRESS	Monthly Rent (in Pesos)	Expiration of Lease
Miag-Ao	One TGN Building cor. Noble and Sto. Tomas Streets, Miagao, Iloilo	39,000	05/15/2013
MJ Cuenco	Ground Floor Benedicto Building, MJ Cuenco Ave., Cebu City	47,579	10/05/2012
One Pavillion Mall	G/F, One Pavilion Mall, R. Duterte St., Banawa, Cebu City	100,097	10/07/2017
Palompon	Ground Floor, Municipal Bldg., Rizal St., Palompon, Southern Leyte	15,000	05/17/2018
Passi	F. Palmares Street, Passi City	39,333	10/03/2013
Uptown Cebu	Jet House Bldg., #36 Osmena Blvd., Cebu City	134,221	09/15/2015
Tabunok	National Highway, Tabunok, Talisay City, Cebu	77,840	01/16/2013
Mindanao			
Agdao	Door 5 & 6 LA Bldg., Lapu Lapu St., Agdao, Davao City	72,800	12/31/2013
Bajada	G/F Quibod Building Cor. J.P. Laurel & A. Loyola Sts. Davao City, Davao del Sur 8000	71,400	06/30/2013
Bangoy	Amigleo Bldg., Bonifacio corner C. Bangoy Sts., Davao City	60,000	03/31/2013
Bankerohan	Door 101-102, JLF Parkway Building, Corner Quirino & Pichon Street, Davao City	74,000	06/30/2015
Carmen	Premier Bldg., Elipe Park, R.M. Pelaez Blvd. Corner P.N. Roa Sts., Carmen, Cagayan de Oro City	50,592	12/31/2017
Climaco	JNB Building, Buenavista Street, Zamboanga City, 7000, Philippines	78,106	06/25/2017
Dadiangas	RD Building, Santiago Blvd., Gen. Santos City	60,184	02/28/2013
Gaisano Capital Surigao	G/F, Gaisano Capital, Km. 4, National Highway, Barangay Luna, Surigao City, Surigao del Norte	38,744	07/10/2017
Isulan	Aristoza Bldg. National Highway, Isulan, Sultan Kudarat	37,383	05/31/2017
KCC Mall Gen Santos City	Lower Ground Floor, KCC Mall of General Santos, J. Catolico Avenue, General Santos City	110,198	04/10/2016
Liloy	Alfred Chan Building, Baybay, Liloy, Zamboanga del Norte	33,600	04/30/2015
Limketkai Mall North Concourse	North Concourse, Limketkai Center, Lapasan, Cagayan de Oro City	156,991	09/30/2014
Matina	BF Building, Mc Arthur Highway, Matina, Davao City	70,500	07/31/2016
Monteverde	G/FMintrade Building Cor. Gov. Sales & Monteverde Sts., Davao City	96,631	03/31/2017
Pala-O	B. S. Ong Street, Barangay Pala-o, Iligan City	49,650	10/01/2012
Panabo City	G/F, Gaisano Grand Mall of Panabo Quezon Street, Barangay Sto. Nino, Panabo City, Davao del Norte	80,586	11/21/2016

BRANCH	ADDRESS	Monthly Rent (in Pesos)	Expiration of Lease
Sasa	Doors 3 & 4, Dr. Pavino Bldg., Km. 9 Sasa, Davao City	42,200	06/15/2015
Sindangan	Bonifacio Corner Rizal Streets, Sindangan, Zamboanga del Norte (same as old)	10,368	08/11/2022
Sta. Ana-Davao	Corner F. Bangoy & Rosemary Streets, Davao City	46,200	02/01/2012
Tetuan	G/F, AL Gonzales & Sons Building, Veterans Avenue, Zamboanga City, 7000	82,632	05/15/2017
Toril	Anecita Uy Bldg., Saavedra St., Toril, Davao City	57,455	06/01/2017
Valencia	Tamay Lang Building, Valencia City, Bukidnon	69,805	04/01/2017

Philippine National Bank and Subsidiaries

Consolidated Financial Statements
March 31, 2013, December 31, 2012 and January 1, 2012
and for the three-month periods ended March 31, 2013 and 2012

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SyCip Gorres Velayo & Co.
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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine National Bank

We have audited the accompanying consolidated financial statements of Philippine National Bank and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at March 31, 2013, December 31, 2012 and January 1, 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three-month periods ended March 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 control. 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at March 31, 2013, December 31, 2012 and January 1, 2012, and its financial performance and cash flows for the three-month periods ended March 31, 2013 and 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115 -AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 129-434-735,
BIR Accreditation No. 08-001998-53-2012
April 11, 2012, valid until April 10, 2015
PTR No. 3669690, January 2, 2013, Makati City

July 18, 2013

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

	March 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
ASSETS			
Cash and Other Cash Items	**₱7,918,010**	₱5,599,088	₱5,404,110
Due from Bangko Sentral ng Pilipinas (Notes 17 and 34)	**83,305,615**	37,175,399	38,152,795
Due from Other Banks (Note 34)	**15,016,791**	4,042,769	6,423,981
Interbank Loans Receivable	**8,275,969**	11,498,756	17,097,648
Securities Held Under Agreements to Resell (Notes 4 and 35)	**20,000,000**	18,300,000	18,300,000
Financial Assets at Fair Value Through Profit or Loss (Note 7)	**9,789,422**	4,023,065	6,875,665
Available-for-Sale Investments (Notes 8 and 17)	**101,627,626**	66,997,479	52,323,808
Loans and Receivables (Note 9)	**241,360,924**	144,707,509	126,249,035
Receivable from Special Purpose Vehicle (Note 10)	**–**	–	–
Property and Equipment (Note 11)			
At cost	**1,497,179**	937,075	866,013
At revalued amount	**21,473,551**	15,566,650	15,698,514
Investments in a Subsidiary and an Associate (Note 12)	**5,061**	2,905,294	2,901,780
Investment Properties (Notes 13 and 33)	**19,022,450**	14,478,348	16,100,113
Deferred Tax Assets (Note 29)	**1,089,464**	1,780,682	1,775,789
Goodwill (Note 14)	**16,017,500**	–	–
Other Assets (Note 15)	**4,000,332**	2,178,637	3,382,169
TOTAL ASSETS	**₱550,399,894**	₱330,190,751	₱311,551,420

LIABILITIES AND EQUITY			
LIABILITIES			
Deposit Liabilities (Notes 17 and 32)			
Demand	**₱83,945,182**	₱28,152,296	₱29,896,120
Savings	**263,347,412**	192,793,260	184,676,120
Time	**47,319,272**	19,908,821	22,961,698
	394,611,866	240,854,377	237,533,938
Financial Liabilities at Fair Value Through Profit or Loss (Note 18)	**10,304,323**	6,479,821	6,650,183
Bills and Acceptances Payable (Notes 19 and 35)	**15,121,397**	13,076,901	8,458,425
Accrued Taxes, Interest and Other Expenses (Note 20)	**5,313,253**	3,914,290	3,739,048
Subordinated Debt (Note 21)	**9,942,407**	9,938,816	6,452,473
Income Tax Payable	**166,682**	149,050	242,169
Other Liabilities (Note 22)	**28,450,238**	17,285,251	14,668,239
TOTAL LIABILITIES	**463,910,166**	291,698,506	277,744,475

(Forward)

	March 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
Capital Stock (Note 25)	**₱43,448,337**	₱26,489,837	₱26,489,837
Capital Paid in Excess of Par Value (Note 25)	**26,499,909**	2,037,272	2,037,272
Surplus Reserves (Notes 25 and 31)	**715,637**	569,887	560,216
Surplus (Note 25)	**9,947,737**	7,266,067	2,567,178
Revaluation Increment on Land and Buildings (Note 11)	**2,816,962**	2,816,962	2,816,962
Remeasurement Losses on Retirement Plan (Note 27)	**(1,920,407)**	(781,900)	(1,004,057)
Accumulated Translation Adjustment (Note 25)	**(918,840)**	(992,620)	(451,708)
Net Unrealized Gain on Available-for-Sale Investments (Note 8)	**2,978,917**	1,037,252	742,343
Equity in Net Unrealized Gain on Available-for-Sale Investment of an Associate (Note 12)	–	–	6,795
Parent Company Shares Held by a Subsidiary (Note 25)	**(4,740)**	(4,740)	(4,740)
	83,563,512	38,438,017	33,760,098
NON-CONTROLLING INTERESTS (Note 2)	**2,926,216**	54,228	46,847
TOTAL EQUITY	**86,489,728**	38,492,245	33,806,945
TOTAL LIABILITIES AND EQUITY	**₱550,399,894**	₱330,190,751	₱311,551,420

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Earnings Per Share)

	Three Months Ended March 31	
	2013	2012 (As restated - Note 2)
INTEREST INCOME ON		
Loans and receivables (Notes 9 and 32)	**₱2,914,132**	₱1,944,255
Trading and investment securities (Notes 7 and 8)	**927,878**	802,512
Deposits with banks and others (Note 32)	**250,068**	193,652
Interbank loans receivable	**6,964**	3,427
	4,099,042	2,943,846
INTEREST EXPENSE ON		
Deposit liabilities (Notes 17 and 32)	**1,058,968**	793,136
Bills payable and other borrowings (Notes 19 and 21)	**417,787**	287,654
	1,476,755	1,080,790
NET INTEREST INCOME	**2,622,287**	1,863,056
Service fees and commission income (Notes 26 and 32)	**762,442**	521,051
Service fees and commission expense (Note 32)	**152,523**	54,555
NET SERVICE FEES AND COMMISSION INCOME	**609,919**	466,496
OTHER INCOME		
Trading and investment securities gains - net (Notes 7, 8 and 18)	**3,272,105**	1,749,829
Premiums - net of reinsurance (Note 26)	**371,174**	114,567
Net gain on sale or exchange of assets (Note 26)	**167,226**	245,932
Gain on step - up acquisition (Note 12)	**140,958**	–
Foreign exchange gains - net	**40,815**	414,582
Miscellaneous (Notes 26 and 28)	**372,106**	121,350
TOTAL OPERATING INCOME	**7,596,590**	4,975,812
OPERATING EXPENSES		
Compensation and fringe benefits (Notes 27 and 32)	**1,342,281**	927,128
Taxes and licenses (Note 29)	**447,900**	348,759
Depreciation and amortization (Note 11)	**296,535**	211,223
Occupancy and equipment - related costs (Note 28)	**274,094**	230,601
Provision for impairment and credit losses (Note 16)	**180,048**	358,977
Miscellaneous (Note 26)	**1,554,241**	1,371,714
TOTAL OPERATING EXPENSES	**4,095,099**	3,448,402
INCOME BEFORE INCOME TAX	**3,501,491**	1,527,410
PROVISION FOR INCOME TAX (Note 29)	**661,892**	238,084
NET INCOME	**₱2,839,599**	₱1,289,326
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	**₱2,827,420**	₱1,287,197
Non-controlling Interests	**12,179**	2,129
	₱2,839,599	₱1,289,326
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	**₱2.99**	₱1.94

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31	
	2013	2012 (As restated - Note 2)
NET INCOME	**₱2,839,599**	₱1,289,326
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Accumulated translation adjustment	**80,617**	18,016
Net unrealized gain (loss) on available-for-sale investments (Note 8)	**2,031,700**	(496,394)
Share in equity adjustments of an associate (Note 12)	–	(6,795)
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan (Note 27)	**(1,138,507)**	56,677
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	**973,810**	(428,496)
TOTAL COMPREHENSIVE INCOME FOR PERIOD	**₱3,813,409**	₱860,830
ATTRIBUTABLE TO:		
Equity holders of the Parent Company	**₱3,704,358**	₱858,701
Non-controlling Interests	**109,051**	2,129
	₱3,813,409	₱860,830

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Attributable to Equity Holders of the Parent Company												
	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Notes 25 and 31)	Surplus (Notes 2 and 25)	Revaluation Increment on Land and Buildings (Note 11)	Accumulated Translation Adjustment (Note 25)	Net Unrealized Gain on Available-for-Sale Investments (Note 8)	Equity in Net Unrealized Gain on AFS Investment of an Associate (Note 12)	Parent Company Shares Held by a Subsidiary (Note 25)	Remeasurement Losses on Retirement Plan (Note 2)	Total	Non-controlling Interests (Note 2)	Total Equity
Balance at January 1, 2013, as previously reported	**₱26,489,837**	**₱2,037,272**	**₱569,887**	**₱6,888,348**	**₱2,816,962**	**(₱992,620)**	**₱1,037,252**	**₱–**	**(₱4,740)**	**₱–**	**₱38,842,198**	**₱904,693**	**₱39,746,891**
Effect of retroactive application of PAS 19 (Revised) (Note 2)	–	–	–	**331,500**	–	–	–	–	–	**(781,900)**	**(450,400)**	**22**	**(450,378)**
Effect of retroactive application of PFRS 10 (Note 2)	–	–	–	**46,219**	–	–	–	–	–	–	**46,219**	**(850,487)**	**(804,268)**
Balance at January 1, 2013, as restated	**26,489,837**	**2,037,272**	**569,887**	**7,266,067**	**2,816,962**	**(992,620)**	**1,037,252**	–	**(4,740)**	**(781,900)**	**38,438,017**	**54,228**	**38,492,245**
Total comprehensive income (loss) for the period	–	–	–	**2,827,420**	–	**73,780**	**1,941,665**	–	–	**(1,138,507)**	**3,704,358**	**109,051**	**3,813,409**
Issuance of capital stocks (Note 25)	**16,958,500**	**24,462,637**	–	–	–	–	–	–	–	–	**41,421,137**	–	**41,421,137**
Non-controlling interest arising on a business combination (Note 14)	–	–	–	–	–	–	–	–	–	–	–	**2,762,937**	**2,762,937**
Transfer to surplus reserves (Note 31)	–	–	**145,750**	**(145,750)**	–	–	–	–	–	–	–	–	–
Balance at March 31, 2013	**₱43,448,337**	**₱26,499,909**	**₱715,637**	**₱9,947,737**	**₱2,816,962**	**(₱918,840)**	**₱2,978,917**	**₱–**	**(₱4,740)**	**(₱1,920,407)**	**₱83,563,512**	**₱2,926,216**	**₱86,489,728**
Balance at January 1, 2012, as previously reported	₱26,489,837	₱2,037,272	₱560,216	₱2,246,213	₱2,816,962	(₱451,708)	₱742,343	₱6,795	(₱4,740)	₱–	₱34,443,190	₱531,247	₱34,974,437
Effect of retroactive application of PAS 19 (Revised) (Note 2)	–	–	–	320,965	–	–	–	–	–	(1,004,057)	(683,092)	(39)	(683,131)
Effect of retroactive application of PFRS 10 (Note 2)	–	–	–	–	–	–	–	–	–	–	–	(484,361)	(484,361)
Balance at January 1, 2012, as restated	26,489,837	2,037,272	560,216	2,567,178	2,816,962	(451,708)	742,343	6,795	(4,740)	(1,004,057)	33,760,098	46,847	33,806,945
Total comprehensive income (loss) for the period before restatements	–	–	–	1,343,874	–	18,016	(496,394)	(6,795)	–	–	858,701	26,735	885,436
Effect of retroactive application of PAS 19 (Revised) (Note 2)	–	–	–	(56,677)	–	–	–	–	–	56,677	–	–	–
Effect of retroactive application of PFRS 10 (Note 2)	–	–	–	–	–	–	–	–	–	–	–	(24,606)	(24,606)
Total comprehensive income (loss) for the period after restatements	–	–	–	1,287,197	–	18,016	(496,394)	(6,795)	–	56,677	858,701	2,129	860,830
Balance at March 31, 2012	₱26,489,837	₱2,037,272	₱560,216	₱3,854,375	₱2,816,962	(₱433,692)	₱245,949	₱–	(₱4,740)	(₱947,380)	₱34,618,799	₱48,976	₱34,667,775

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Three Months Ended March 31	
	2013	2012 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,501,491**	₱1,527,410
Adjustments for:		
Realized trading gain on available-for-sale (AFS) investments (Note 8)	**(2,590,049)**	(1,506,817)
Depreciation and amortization (Note 11)	**296,535**	211,223
Mark-to-market gain on derivatives (Note 23)	**(192,449)**	(9,738)
Provision for impairment and credit losses (Note 16)	**180,048**	358,977
Net gain (loss) on sale or exchange of assets (Note 26)	**167,226**	(245,932)
Increase in aggregate reserve for life policies (Note 26)	**142,906**	–
Gain from step-up acquisition (Notes 12 and 26)	**(140,958)**	–
Amortization of premium (discount) on AFS investments	**116,064**	(182,548)
Gain on mark-to-market of financial liability designated at fair value through profit or loss (FVPL) (Notes 8 and 18)	**(99,562)**	(157,393)
Amortization of software costs (Note 15)	**42,946**	37,429
Amortization of transaction costs (Notes 17 and 21)	**8,047**	4,603
Share in net income of an associate (Notes 12 and 26)	**(4,975)**	(18,300)
Dividend income	**(160)**	(103)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Financial assets at FVPL	**977,460**	2,192,436
Loans and receivables	**(4,914,166)**	(3,703,476)
Other assets	**4,025,956**	(155,678)
Increase (decrease) in amounts of:		
Deposit liabilities	**12,564,259**	(10,392,480)
Accrued taxes, interest and other expenses	**(254,717)**	36,694
Other liabilities	**(3,111,231)**	(85,032)
Net cash generated from (used in) operations	**10,714,671**	(12,088,725)
Income taxes paid	**(700,063)**	(331,388)
Dividends received	**160**	103
Net cash provided by (used in) operating activities	**10,014,768**	(12,420,010)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
AFS investments	**116,959,861**	54,546,322
Investment properties	**480,669**	1,080,943
Property and equipment (Note 11)	**77,138**	6,536
Proceeds from redemption of placements with the Bangko Sentral ng Pilipinas (BSP)	**–**	20,200,000
Placements with the BSP and other banks (Note 34)	**(3,484,186)**	(19,300,000)

(Forward)

	Three Months Ended March 31	
	2013	2012 (As restated - Note 2)
Acquisitions of:		
AFS investments	**(₱127,768,855)**	(₱70,009,786)
Property and equipment (Note 11)	**(208,503)**	(118,476)
Software cost (Note 15)	**(79,233)**	(2,312)
Cash acquired from business combination (Note 14)	**64,444,869**	–
Net cash provided by (used in) investing activities	**50,421,760**	(13,596,773)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of bills and acceptances payable	**(25,823,741)**	(11,458,989)
Proceeds from bills and acceptances payable	**24,388,192**	12,822,642
Redemption of subordinated debt (Note 21)	**(4,500,000)**	–
Transaction cost attributable to issuance of shares (Note 14)	**(84,792)**	–
Net cash provided by (used in) financing activities	**(6,020,341)**	1,363,653
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**54,416,187**	(24,653,130)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**5,599,088**	5,404,110
Due from BSP	**37,175,399**	17,952,795
Due from other banks	**4,042,769**	6,423,981
Interbank loans receivable	**11,498,756**	17,097,648
Securities held under agreements to resell	**18,300,000**	18,300,000
	76,616,012	65,178,534
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**7,918,010**	4,155,014
Due from BSP (Note 34)	**83,305,615**	19,402,437
Due from other banks (Note 34)	**11,532,605**	4,279,027
Interbank loans receivable	**8,275,969**	3,888,926
Securities held under agreements to resell	**20,000,000**	8,800,000
	₱131,032,199	₱40,525,404
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	**₱4,227,997**	₱2,869,328
Interest paid	**1,480,025**	1,298,415
Dividends received	**160**	103

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Philippine Securities and Exchange Commission (SEC) approved the Parent Company's application to extend its corporate term for another 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City. As of March 31, 2013, the Lucio Tan Group Inc. (LTG) held indirect ownership of the Parent Company shares amounting to about 48.61% and the shareholders related to or who issue proxies/special powers of attorney in favor of Director Lucio C. Tan from time to time held a total of about 18.25%, while the remaining 33.14% are owned by other stockholders. As of December 31, 2012, the companies and persons affiliated/associated to or who issue proxies/special powers of attorney in favor of Director Lucio C. Tan were the majority shareholder of the Parent Company at 68.85% and the remaining 31.15% 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 654 domestic and 16 overseas branches and offices as of March 31, 2013, respectively, and 339 domestic and 13 overseas branches and offices as of December 31, 2012, respectively. The Parent Company's international subsidiaries have a network of 73 and 65 offices as of March 31, 2013 and December 31, 2012, respectively, in key cities of the United States of America (USA), Canada, Western Europe, Middle East and Asia.

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

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 (PDIC) and LTG on May 3, 2002. In May 2007, the Parent Company concluded its 5-year Rehabilitation Plan as approved by the Bangko Sentral ng Pilipinas (BSP).

Merger with Allied Banking Corporation

The respective shareholders of the Parent Company and Allied Banking Corporation (ABC), representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original plan of the merger which was effected via a share-for-share exchange was approved by the affirmative vote of ABC and the Parent Company's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks, on June 24, 2008. Under the approved amended terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company shares for every ABC common share and 22.763 Parent Company shares for every ABC preferred share. Merger and business combination are terms used interchangeably within the accompanying consolidated financial statementents and have the same meaning.

On March 26, 2012, the Parent Company submitted to the BSP and PDIC applications for consent to the merger. On April 12, 2012, the application for the merger was filed with the Philippine SEC. The PDIC, the Monetary Board of the BSP and the Philippine SEC gave consent and approved the merger on July 25, 2012, August 2, 2012 and January 17, 2013, respectively. In addition, with respect to ABC's overseas subsidiaries, the Parent Company has also filed notices in relation to the merger with various relevant foreign regulatory agencies; and as of February 9, 2013 had received all necessary approvals and complied with conditions to effectuate the merger.

On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion which represents 423,962,500 common shares at the fair value of ₱97.90 per share in exchange for the 100.00% voting interest in ABC at the share swap ratio of 130 PNB common shares for one ABC share and 22.763 PNB common shares for one ABC preferred share. The fair value of the shares is the published price of the shares of the Parent Company as of February 9, 2013. There are no contingent considerations arrangements as part of the merger.

The Parent Company, the Acquirer, has elected to measure the non-controlling interests in ABC, the Acquiree, at their proportionate share in ABC's net identifiable assets and liabilities. As at July 18, 2013, the Parent Company, is still in the process of finalizing the fair values of ABC's net identifiable assets and liabilities and the total acquisition/transaction related costs.

The merger of the Parent Company and ABC will enable the two banks to advance their long-term strategic business interests as they capitalized on their individual strengths and markets.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Parent Company and its subsidiaries (the Group) 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 revalued amount.

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 the 'Basis of Consolidation'.

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

Statement of Compliance
The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amendments and improvements to PFRS which became effective as of January 1, 2013. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Group:

New and Revised Standards and Interpretations
- PFRS 11, *Joint Arrangements*
- PAS 27, *Separate Financial Statements* (as revised in 2011)
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)

Improvements to PFRSs (2009-2011 cycle)
- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
- PAS 16*, Property, Plant and Equipment - Classification of servicing equipment*
- PAS 32*, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

PFRS 7*, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
The Group disclosed the requirements of the amendments regarding the 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.

Refer to Note 35 for the details and the tabular format of the required offsetting disclosures which the Group retrospectively applied.

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 Standing Interpretations Committee (SIC) No. 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 requires management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements in PAS 27. Refer to Note 3 for the significant judgment made by management in identifiying entities for consolidation.

Deconsolidation of Investment in SPV - Opal Portfolio Investments (SPV-AMC), Inc. (OPII)
Before the effectivity of PFRS 10, OPII is consolidated by PNB based on the provisions of SIC 12. Under SIC 12, control over an 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 in order to obtain benefits from its activities. Beginning January 1, 2013, the Group adopted PFRS 10 which supersedes SIC 12. PFRS 10 establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. Based on management's assessment, the Parent Company should no longer consolidate OPII since it failed to demonstrate control over OPII.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*
The Group applied amendments to PAS 1 and changed the grouping of items presented in OCI either:
- items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement). These include 'Accumulated Translation Adjustment', 'Net Unrealized Gain (Loss) on Available-for-Sale Investments' and 'Equity in Net Unrealized Gain on AFS Investment of an Associate'; or
- items that will never be recycled to profit or loss. These include 'Remeasurement Losses on Retirement Plan'.

The amendments affect presentation only and have no impact on the Group's financial position or performance.

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. The Group has no significant interests in joint arrangements, associates and structured entities that require disclosures. None of the majority owned subsidiaries are held by non-controlling interests that are considered material to the Group and which will require additional disclosures by PFRS 12. Refer to Basis of Consolidation, Notes 3 and 12 for disclosures related to subsidiaries and associates.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs 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. This standard has no significant impact in the fair value measurement of financial assets and liabilities at FVPL, AFS investments, land and buildings. Refer to Note 5 for the disclosures required by the standard.

PAS 19, *Employee Benefits* (Revised)
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 rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

The adoption of PAS 19 (Revised) which required restrospective application, resulted in the restatement of previously reported retirement obligation/asset of the Group. The adjustment amounts were determined by the Group with the assistance of an external actuary. The Parent Company and certain subsidiaries had chosen to close 'Surplus' the net effect of all transition adjustments as at January 1, 2011 (the transition date) upon retrospective application of PAS 19

(Revised). The Group will retain the remeasurements recognized in other comprehensive income and will not transfer these to other items in equity.

The effects of retroactive application of PAS 19 (Revised) and PFRS 10 are detailed below:

	December 31, 2012			
	As previously reported	Effect of retroactive application of PAS 19R	Effect of retroactive application of PFRS 10	As restated
Consolidated statements of financial position				
Assets				
Other assets-net	₱2,994,425	₱429	(₱816,217)	₱2,178,637
Liabilities				
Other liabilities	16,846,393	450,807	(11,949)	17,285,251
Equity				
Remeasurement losses on retirement plan	–	(781,900)	–	(781,900)
Surplus	6,888 ,348	331,500	46,219	7,266,067
Non-controlling interests	904,693	22	(850,487)	54,228

	January 1, 2012			
	As previously reported	Effect of retroactive application of PAS 19R	Effect of retroactive application of PFRS 10	As restated
Consolidated statements of financial position				
Assets				
Other assets-net	₱3,897,388	(₱1,217)	(₱514,002)	₱3,382,169
Liabilities				
Other liabilities	14,015,965	681,915	(29,641)	14,668,239
Equity				
Remeasurement losses on retirement plan	–	(1,004,057)	–	(1,004,057)
Surplus	2,246,213	320,965	–	2,567,178
Non-controlling interests	531,247	(39)	(484,361)	46,847

Other income, other expenses, provision for income tax and income attributable to non-controlling interests decreased by ₱989.4 million, ₱623.3 million and ₱46.2 million, and ₱366.1 million for the year ended December 31, 2012.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

As of March 31, 2013

Subsidiaries	Nature of Business	Country of Incorporation	Percentage of Ownership Direct	Percentage of Ownership Indirect	Functional Currency
Allied Savings Bank*	Banking	Philippines	100.00	–	Php
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	100.00	–	Php
PNB Forex, Inc.	FX trading	- do -	100.00	–	Php
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	100.00	–	Php

(Forward)

Subsidiaries	Nature of Business	Country of Incorporation	Percentage of Ownership Direct	Percentage of Ownership Indirect	Functional Currency
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. (PNB RCC) [(b)]	Remittance	- do -	–	100.00	USD
PNB RCI Holding Co. Ltd. [(b)]	Holding Company of PNB RCC	- do -	–	100.00	USD
Allied Bank Philippines (UK) Plc*	Banking	United Kingdom	100.00	–	Great Britain Pound (GBP)
PNB Europe PLC	Banking	- do -	100.00	–	GBP
PNB Remittance Co. (Canada) [(c)]	Remittance	Canada	–	100.00	Canadian Dollar (CAD)
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
Allied Commercial Bank*	Banking	People's Republic of China	90.00	–	USD
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)	Leasing/Financing	Philippines	90.00	–	Php
Japan -PNB Equipment Rentals Corporation[(d)]	Rental	- do -	–	90.00	Php
PNB Life Insurance, Inc. (PNB LII) *	Insurance	- do -	80.00	–	Php
Allied Leasing and Finance Corporation	Rental	- do -	57.21	–	Php
ACR Nominees Limited [(e)] *	Banking	Hong Kong	–	51.00	HKD
Allied Banking Corporation (Hong Kong) Limited *	Banking	- do -	51.00	–	HKD
Oceanic Holding (BVI) Ltd. *	Holding Company	British Virgin Islands	27.78	–	USD

** Subsidiaries acquired as a result of the merger with Allied Banking Corporation*

As of December 31, 2012

Subsidiaries	Nature of Business	Country of Incorporation	Percentage of Ownership Direct	Percentage of Ownership Indirect	Functional Currency
PNB Capital	Investment	Philippines	100.00	–	Php
PNB Forex, Inc.	FX trading	- do -	100.00	–	Php
PNB Holdings	Investment	- do -	100.00	–	Php
PNB Gen [(a)]	Insurance	- do -	–	100.00	Php
PNB Securities	Securities Brokerage	- do -	100.00	–	Php
PNB Corporation - Guam	Remittance	USA	100.00	–	USD
PNB IIC	Investment	- do –	100.00	–	USD
PNB RCC [(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 GRF	Remittance	Hong Kong	100.00	–	HKD
PNB Italy SpA	Remittance	Italy	100.00	–	Euro
PNB Europe PLC	Banking	United Kingdom	100.00	–	GBP
Japan-PNB Leasing	Leasing/Financing	Philippines	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
[(e)] Owned through Allied Banking Corporation (Hong Kong) Limited

The financial statements of the subsidiaries are prepared on 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 is exposed, or has rights, to variable return from its involvement with an entity and has the ability to affect those returns through its power over the entity. The Group has power over the entity when it has existing rights that give it the current ability to direct the relevant activities (i.e., activities that significantly affect the entity's returns). 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.

If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income (OCI) to profit or loss or surplus, as appropriate

The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company. The Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of the combined voting rights arising from its direct ownership and assigned voting rights of 70.56%.

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.

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 reporting date 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 period 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 period. Exchange differences arising on translation are taken directly to 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 consolidated statement of income.

Product Classification
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF).

DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign currency exchange rate, index of price or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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.

As of March 31, 2013, December 31 and January 1, 2012, the Group has no HTM investments.

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 which then 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 consolidated 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 consolidated 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 consolidated 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. 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 clearly and 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 consolidated 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 consolidated 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.

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, '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 consolidated statement of income. The losses arising from impairment are recognized in 'Provision for impairment and credit losses' in the consolidated 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 consolidated 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 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 consolidated 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 consolidated statement of income as 'Miscellaneous income' when the right of payment has been established.

The losses arising from impairment of such investments are recognized as 'Provision for impairment and credit losses' in the consolidated statement of income.

Other financial liabilities
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 consolidated 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 consolidated statement of financial position. The corresponding cash received, including accrued interest, is recognized in the consolidated 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 consolidated 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 consolidated statement of financial position as 'Securities held under agreements to resell', and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Impairment of Financial Assets
The Group assesses at each 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 as 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 consolidated 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. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. 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 consolidated 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 consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments
Financial instruments are offset and the net amount reported in the consolidated 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 consolidated 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 consolidated statement of income in 'Provision for impairment and credit losses'. Any financial guarantee liability remaining is recognized in the consolidated 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 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.

Interchange fee and awards revenue on credit cards
Discounts lodged under 'Interchange fees' are taken up as income upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being obtained. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

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 consolidated 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 consolidated 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, 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 consolidated 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 of 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 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 consolidated 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 consolidated statement of financial position. The net changes in these accounts between end of the reporting periods are credited to or charged against the consolidated statement of income for the period.

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 when the collectibility of the sales price is reasonably assured.

Expenses
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 Associates
Investments in subsidiaries
Subsidiaries pertain to entities over which the Group has control. The existence and effect of potential voting rights that are currently exercisable or convertible and qualitative criteria are considered when assessing whether the Group controls another entity (see Basis of Consolidation).

Investment in an associate
Associates pertain to entities 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 associates, 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 associates 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.

Policy Loans
Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

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 consolidated 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 consolidated 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 consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

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 revalued amounts less any impairment in value while buildings are stated at revalued amount less accumulated depreciation and any impairment in value. The revalued amounts were determined by professionally qualified, independent appraisers. The revalued amounts take into account the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The revaluation increment resulting from revaluation is credited to the 'Revaluation increment on land and buildings' in the consolidated statement of comprehensive income, net of applicable deferred income tax.

The Group has elected to transfer the revaluation increment to Surplus, in full, upon disposal of the asset.

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 consolidated statement of income in the period 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 under ‘Net gain on sale or exchange of assets’. 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 Inventories

Foreclosed properties that are being developed or constructed for sale rather than to be held for rental or capital appreciation, is held as real estate inventory. Real estate inventories consist of parcels of land that are carried at lower of cost or net realizable value.

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 consolidated 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 amortization method are reviewed periodically to ensure that the period and the method of amortization are consistent with the expected pattern of economic benefits from the software.

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 consolidated 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 irrespective of any impairment indicators at year end either individually or at the cash generating unit level, as appropriate.

Investment in an associate

The Parent Company assesses at each reporting date whether there is any indication that its investment in an associate 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.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at reporting date.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group as an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group as an acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of income. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in the consolidated statement of income or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in the consolidated statement of income

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations under the purchase method of accounting, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the noncontrolling interest, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction.

Life Insurance Contract Liabilities

Life insurance liabilities

Life insurance liabilities refer to liabilities of the company that are recognized due to the obligations arising from policy contracts issued by PNB LII. The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations.

Insurance contracts with fixed and guaranteed terms

The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

For unpaid claims and benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the reporting date less reinsurance recoveries, using the information available at the time.

Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on the PNB LII's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the consolidated statement of income in later years. Policy and contract claims payable forms part of the liability section of the consolidated statement of financial position under 'Other liabilities - Insurance contract liabilities'.

Aggregate reserve for life policies represents the accumulated total liability for policies in force on the statement of financial position date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions in accordance with statutory requirements and as approved by the Insurance Commission (IC), subject to the minimum liability adequacy test.

Unit-linked insurance contracts
PNB LLI issues unit-linked insurance contracts. Considerations received from unit-linked insurance contracts, in excess of the portion that is placed under a withdrawable segregated account, are recognized as revenue.

PNB LLI's revenue from unit-linked contracts consists of charges deducted from the policyholder's separate account, in accordance with the unit-linked policy contract. Since the segregated fund assets belong to the unit-linked policyholders, corresponding segregated fund liabilities are set-up equal to the segregated fund assets less redemptions outside the segregated funds. The segregated fund assets are valued at market price. Changes in the segregated fund assets due to investment earnings or market value fluctuations result in the same corresponding change in the segregated fund liabilities. Such changes in fund value have no effect in the consolidated statement of income. Collections received from unit-linked policies are separated to segregated fund assets from which PNB LLI withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the segregated fund assets are equal to the surrender value of the unit-linked policyholders, and are withdrawable anytime.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to the total number of outstanding units of the policyholder multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by the total number of outstanding units.

<u>Nonlife Insurance Contract Liabilities</u>
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 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 consolidated statement of financial position. The change in the provision for unearned premiums is taken to the consolidated 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 liability is derecognized when the contract has expired, is discharged or cancelled.

Liability Adequacy Test
Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related DAC assets. 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.

Reserve for Policyholders' Dividends
A number of insurance contracts are participating and contain a DPF. This feature entitles the policy holder to receive, as a supplement to guaranteed benefits, annual policy dividends that are credited at each policy anniversary, as long as the policy is in force. These annual policy dividends represent a portion of the theoritical investment and underwriting gains from the pool of contracts. Policy dividends are not guaranteed and may change based on the periodic experience review of the Group. Further, in accordance with regulatory requirements, dividends payable in the following year are prudently set-up as a liability in the statement of financial position.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the annual cash dividends at the time the product is priced. The Group may exercise its discretion to revise the dividend scale in consideration of the emerging actual experience on each block of participating policies. Reserve for dividends to policyholders on contracts with DPF is shown in the consolidated statement of financial position under 'Insurance provisions'.

There is no statutory requirement as to the level of eligible surplus that may be attributed to participating policyholders. The amount distributed to individual policyholders is at the discretion of the Group, subject to the endorsement of the Chief Finance Officer and approval by the BOD.

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 consolidated 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 consolidated 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 consolidated statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Retirement Benefits
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Defined contribution plan
For maximum benefits under the Plan, the Parent Company provides an Employee Investment and Savings Program (EISP) wherein an employee may invest monthly during his employment an amount not less than 1.00% of monthly salary but not more than 50.00% of his net monthly salary in the EISP. Upon retirement, an employee who has also availed of the EISP shall receive an additional benefit from the Plan plus a return of his investment in EISP including related interests.

The Parent Company also contributes to this contributory, defined-contribution type EISP 1 based on the shortfall in guaranteed return for employees of ABC who are members of EISP prior to July 2009 resulting from the business combination and as defined in the plan which is recorded as an expense under 'Compensation and fringe benefits' in the consolidated statement of income. Unpaid contributions, if any, are recorded as a liability.

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 consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

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

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 consolidated 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 consolidated 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 by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive 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 consist 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 the 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' represents accumulated earnings (losses) of the Group less dividends declared.

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

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

'Cumulative amount of actuarial losses' which pertains to remeasurement comprising actuarial losses net of return on plan assets.

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

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

Future Changes in Accounting Policies

The Group will adopt the 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 consolidated financial statements.

New Standards and Interpretations

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments 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. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition.

A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, the Group is still evaluating the effects of the adoption of PFRS 9.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

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 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 the 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.

3. Significant Accounting Judgments and Estimates

The preparation of the consolidated 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 consolidated 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 consolidated statement of financial position cannot be derived from active markets, they are determined using 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) *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.

(d) *Embedded derivatives*
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.

(e) *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 33).

(f) *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.

(g) *Product classification*
The Group classified its unit-linked products as insurance contracts due to the significant insurance risk at issue. All of the Group's products are classified and treated as insurance contracts.

(h) *Assessment of control over the entities for consolidation*
The Group has majority owned subsidiaries discussed in Note 2. Management concluded that the Group controls these majority owned subsidiaries arising from voting rights and, therefore, consolidates the entity in its consolidated financial statements. In addition, the Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company. Management concluded that the Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of the combined voting rights arising from its direct ownership and assigned voting rights of 70.56%.

Furthermore, PNB Venture Capital Corporation is 61%-owned by the Parent Company and carried at cost less any impairment in value. However, management concluded not to consolidate this subsidiary since it is for dissolution and considered insignificant to the Group.

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 9 and 10 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 23 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. Refer to Note 8 for the carrying value of unquoted AFS securities.

(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 March 31, 2013 and December 31, 2012, no allowance for impairment losses was provided on AFS debt investments. Refer to Note 8 for the carrying value of AFS debt investments.

(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 March 31, 2013 and December 31, 2012, allowance for impairment losses on AFS equity investments amounted to ₱928.4 million for the Group. Refer to Note 8 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 29, recognized net deferred tax assets as of March 31, 2013 and December 31, 2012 amounted to ₱0.9 billion and ₱1.8 billion for the Group, respectively. Refer to Note 29 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) *Fair valuation in business combination*
The Group determines the acquisition-date fair values of identifiable assets acquired and liabilities assumed from the acquiree without quoted market price based on the following:

- for assets and liabilities that are short term in nature, carrying values approximate fair values
- for financial assets and liabilities that are long term in nature, fair values are estimated through the discounted cash flow methodogy, using the appropriate market rates (e.g., current lending rates)
- for nonfinancial assets such as property and equipment and investment properties, fair values are determined based an appraisal valuation which follows sales comparison approach and depreciated replacement cost approach
- for deferred tax assets and liabilities, fair values are based on the tax benefit arising from future taxable income from the enlarged operations of the Bank and future deductible expenses of ABC which PNB can utilize

Refer to Note 14 for the details of the fair values of the identifiable assets and liabilities assumed from business combination.

(h) *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 March 31, 2013 and December 31, 2012, the present value of the defined benefit obligation of the Parent Company is disclosed in Note 27.

(i) 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 consolidated statement of comprehensive income. The Group engaged independent valuation specialists to determine the fair value of land and buildings as of March 31, 2013 and December 31, 2012. Refer to Note 11 for the carrying values of land and buildings.

(j) Impairment of nonfinancial assets
Property and equipment, investment in a subsidiary and an associate, investment properties, other properties acquired, goodwill, 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 of its nonfinancial assets except for investment in a subsidiary and an associate and goodwill, where recoverable amount is based on value in use.

Refer to Notes 11, 12, 13, 14 and 15 for the carrying values and allowance for impairment loss of property and equipment, investment in a subsidiary and an associate, investment properties, goodwill, other properties acquired, trading rights and software costs, respectively.

(k) Aggregate reserves for life policies
In determining the aggregate reserves for life policies estimates are made as to the expected number of deaths, illness or injury for each of the years in which PNB LII is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Insurance Code (IC or the Code). The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

In accordance with the provision of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6.00% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

(l) Valuation of insurance contracts
Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife insurance contract liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

(m) Estimated useful lives of property and equipment, investment properties, other properties acquired 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, other properties acquired and software cost.

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

Refer to Notes 11, 13 and 15 for the carrying values of property and equipment, investment properties, other properties acquired and software cost, respectively.

4. Financial Risk Management Objectives and Policies

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

The Group 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 Group 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 Group's shareholdings and equity interests

Managing the level of these risks as provided for by the Group's ERM framework is critical to its continuing profitability. The Risk Oversight Committee (ROC) 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 ROC of the Parent Company is also responsible for the risk management of the Group.

The RMG provides the legwork for the ROC 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:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establishing 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 ROC 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 Group 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 Group 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 Group and documentary/commercial LCs which are written undertakings by the Group. To mitigate this risk the Group 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
- For securities lending and reverse repurchase transactions - cash or securities

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 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.

The table below shows the maximum exposure for loans and receivable to credit risk (amounts in millions):

	March 31, 2013		December 31, 2012	
	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 (Note 35)	**₱20,000**	**₱30**	₱18,300	₱–
Loans and receivables:				
Receivable from customers*:				
Business loans	**160,731**	**108,351**	83,053	41,146
GOCCs and National Government Agencies (NGAs)	**25,141**	**16,532**	24,410	27,753
Consumers	**7,823**	**5,478**	7,157	4,794
LGUs	**22,341**	**11,422**	11,197	2,337
Fringe benefits	**631**	**158**	643	168
Unquoted debt securities	**7,649**	**4,908**	3,859	1,662
Other receivable	**14,989**	**13,529**	12,569	7,492
	₱259,305	**₱160,408**	₱161,188	₱85,352

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
*Receivables from customers exclude residual value of the leased asset.

Fair values of collateral held for securities held under agreements to resell and loans and receivables amounted to ₱20.0 billion and ₱300.2 billion, respectively as of March 31,2013 and ₱18.9 billion and ₱234.7 billion, respectively as of December 31, 2012.

The maximum exposure to credit risks for the other financial assets is limited to their carrying values as of March 31, 2013 and December 31, 2012.

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Group 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 Group 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 Group sets an internal limit for group exposures which is equivalent to 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 of the Group's financial assets, before taking into account any collateral held or other credit enhancements, categorized by geographic location (in millions):

	March 31, 2013	December 31, 2012
Philippines	**₱435,939**	₱265,520
USA and Canada	**10,546**	4,238
Asia (excluding the Philippines)	**17,948**	6,107
United Kingdom	**4,350**	5,355
Other European Union Countries	**8,538**	3,706
Middle East	**9**	2
	₱477,330	₱284,928

c. Concentration by Industry
The table below shows the industry sector analysis of the Group's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements (amounts in millions).

	March 31, 2013	December 31, 2012
Loans and Receivables		
Receivable from customers:		
Primary target industry:		
Wholesale and retail	**₱38,183**	₱20,682
Manufacturing	**28,709**	11,637
Electricity, gas and water	**26,066**	18,104
Public administration and defense	**24,113**	22,623
Transport, storage and communication	**23,755**	16,335
Financial intermediaries	**16,206**	10,172
Agriculture, hunting and forestry	**3,368**	2,774
Secondary target industry:		
Real estate, renting and business activities	**27,378**	9,568
Construction	**5,016**	2,345
Others*	**23,874**	12,222
Unquoted debt securities:		
Government	**6,858**	3,699
Financial intermediaries	**642**	–
Manufacturing	**149**	160
	7,649	3,859
Other receivables***	**14,989**	12,569
	239,306	142,890

(Forward)

	March 31, 2013	December 31, 2012
Trading and Investment Securities		
Government	**₱87,756**	₱57,865
Financial intermediaries	**13,063**	7,096
Real estate, renting and business activities	**2,493**	1,225
Electricity, gas and water	**829**	2,461
Manufacturing	**511**	22
Others	**6,765**	2,352
	111,417	71,021
Other Financial Assets****		
Financial intermediaries	**117,837**	71,016
Government	**–**	–
Others	**8,770**	1
	126,607	71,017
	₱477,330	₱284,928

* Receivables from customers exclude residual value of the leased asset.
** 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 receivables exclude receivables from Bureau of Internal Revenue.
****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'.

The internal limit of the Group 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 Credit Management 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 Group'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 from 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 Group 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 Group's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of March 31, 2013 and December 31, 2012 (in millions).

	March 31, 2013		
	Neither Past Due nor Individually Impaired	**Past Due or Individually Impaired**	**Total**
Rated Receivable from Customers			
1 – Excellent	**₱11,547**	**₱–**	**₱11,547**
2 – Super Prime	**38,132**	**–**	**38,132**
3 – Prime	**16,584**	**–**	**16,584**
4 – Very Good	**7,636**	**–**	**7,636**
5 – Good	**27,787**	**–**	**27,787**
6 – Satisfactory	**22,052**	**–**	**22,052**
7 – Average	**25,048**	**165**	**25,213**
8 – Fair	**8,532**	**118**	**8,650**
9 – Marginal	**4,587**	**36**	**4,623**
10 – Watchlist	**9,849**	**67**	**9,916**
11 – Special Mention	**2,683**	**82**	**2,765**
12 – Substandard	**524**	**1,788**	**2,312**
13 – Doubtful	**–**	**2,565**	**2,565**
14 – Loss	**–**	**2,786**	**2,786**
	174,961	**7,607**	**182,568**
Unrated Receivable from Customers			
Consumers	**17,684**	**695**	**18,379**
Business Loans	**10,193**	**396**	**10,589**
LGUs	**7,633**	**263**	**7,896**
GOCCs and NGAs	**1,315**	**1,641**	**2,956**
Fringe Benefits	**594**	**53**	**647**
	37,419	**3,048**	**40,467**
	₱212,380	**₱10,655**	**₱223,035**

	December 31, 2012		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
Rated Receivable from Customers			
1 – Excellent	₱10,948	₱–	₱10,948
2 – Super Prime	33,489	–	33,489
3 – Prime	11,261	–	11,261
4 – Very Good	6,418	–	6,418
5 – Good	16,464	2	16,466
6 – Satisfactory	4,897	–	4,897
7 – Average	6,728	19	6,747
8 – Fair	2,646	1	2,647
9 – Marginal	1,820	5	1,825
10 – Watchlist	4,353	6	4,359
11 – Special Mention	2,321	9	2,330
12 – Substandard	271	764	1,035
13 – Doubtful	–	2,449	2,449
14 – Loss	–	2,665	2,665
	101,616	5,920	107,536
Unrated Receivable from Customers			
Consumers	10,687	770	11,457
LGUs	6,868	419	7,287
Business Loans	2,562	237	2,799
GOCCs and NGAs	1,391	1,651	3,042
Fringe Benefits	622	37	659
	22,130	3,114	25,244
	₱123,746	₱9,034	₱132,780

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 (in millions).

	March 31, 2013			
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**Total**
Consumers	**₱81**	**₱103**	**₱264**	**₱448**
Business loans	**150**	**263**	**893**	**1,306**
Fringe benefits	**–**	**1**	**8**	**9**
LGUs	**–**	**–**	**–**	**–**
GOCCs and NGAs	**–**	**–**	**–**	**–**
Total	**₱231**	**₱367**	**₱1,165**	**₱1,763**

	December 31, 2012			
	Less than 30 days	31 to 90 days	91 to 180 days	Total
Consumers	₱53	₱57	₱211	₱321
Business loans	6	39	460	505
LGUs	133	–	–	133
Fringe benefits	1	1	12	14
GOCCs and NGAs	–	–	–	–
Total	₱193	₱97	₱683	₱973

Below are the financial assets of the Group, excluding receivable from customers, which are monitored using external ratings (in millions).

	March 31, 2013					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[6/]**	**Total**
Due from BSP [1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱83,306**	**₱83,306**
Due from other banks	**3,466**	**6,384**	**2,460**	**12,310**	**2,707**	**15,017**
Interbank loans receivables	**2,697**	**3,478**	**1,489**	**7,664**	**612**	**8,276**
Securities held under agreements to resell[2/]	**–**	**–**	**–**	**–**	**20,000**	**20,000**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**2,977**	**2,977**	**709**	**3,686**
Derivative assets[3/]	**8**	**212**	**30**	**250**	**205**	**455**
Equity securities	**–**	**–**	**–**	**–**	**301**	**301**
Private debt securities	**–**	**–**	**–**	**–**	**27**	**27**
Designated at FVPL:						
Segregated fund assets	**–**	**4,091**	**–**	**4,091**	**–**	**4,091**
Private debt securities	**–**	**–**	**–**	**–**	**1,229**	**1,229**
Loans and receivables:						
Unquoted debt securities[4/]	**–**	**–**	**34**	**34**	**7,615**	**7,649**
Others[5/]	**10**	**–**	**123**	**133**	**16,513**	**16,646**
AFS investments:						
Government securities	**556**	**57**	**72,938**	**73,551**	**10,952**	**84,503**
Other debt securities	**369**	**908**	**4,278**	**5,555**	**9,905**	**15,460**
Quoted equity securities	**24**	**–**	**226**	**250**	**1,311**	**1,561**
Unquoted equity securities	**–**	**–**	**–**	**–**	**103**	**103**
Miscellaneous COCI	**–**	**–**	**–**	**–**	**8**	**8**

	December 31, 2012					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[6/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱37,175	₱37,175
Due from other banks	899	1,316	973	3,188	855	4,043
Interbank loans receivables	2,143	6,730	1,847	10,720	779	11,499
Securities held under agreements to resell[2/]	–	–	–	–	18,300	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	907	907	1,064	1,971
Derivative assets[3/]	2	274	114	390	65	455
Equity securities	–	–	–	–	250	250
Private debt securities	–	–	–	–	99	99
Designated at FVPL:						
Private debt securities	–	–	–	–	1,248	1,248
Loans and receivables:						
Unquoted debt securities[4/]	–	–	31	31	3,828	3,859
Others[5/]	–	–	–	–	14,057	14,057
AFS investments:						
Government securities	748	–	44,771	45,519	10,039	55,558
Other debt securities	1,434	–	3,255	4,689	6,231	10,920
Quoted equity securities	13	–	134	147	293	440
Unquoted equity securities	–	–	–	–	79	79
Miscellaneous COCI	–	–	–	–	1	1

1/ '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 23).
4/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market.
5/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (see Note 9)
6/ As of March 31, 2013 and December 31, 2012, 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 16 for more detailed information on the allowance for credit losses on loans and receivables and other financial assets.

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

The Group's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group 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 Group on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity through 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).

	March 31, 2013					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	**₱7,918**	**₱–**	**₱–**	**₱–**	**₱–**	**₱7,918**
Due from BSP and other banks	**90,867**	**3,971**	**2,491**	**974**	**19**	**98,322**
Interbank loans receivable	**8,038**	**238**	**–**	**–**	**–**	**8,276**
Securities held under agreements to resell	**20,043**	**–**	**–**	**–**	**–**	**20,043**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**505**	**15**	**69**	**121**	**6,097**	**6,807**
Equity securities	**301**	**–**	**–**	**–**	**–**	**301**
Private debt securities	**–**	**–**	**–**	**1**	**33**	**34**
Derivative assets						
Pay	**(13,581)**	**(9,902)**	**(1,598)**	**(881)**	**–**	**(25,962)**
Receive	**13,866**	**10,385**	**1,594**	**880**	**–**	**26,725**
	285	**483**	**(4)**	**(1)**	**–**	**763**
Designated at FVPL:						
Segregated fund assets	**–**	**–**	**–**	**–**	**4,091**	**4,091**
Private debt securities	**–**	**1,231**	**–**	**–**	**–**	**1,231**
Loans receivables - gross	**36,618**	**33,256**	**7,336**	**7,679**	**183,511**	**268,400**
Unquoted debt securities - gross	**93**	**1**	**10**	**2,805**	**9,112**	**12,021**
Other receivables - gross	**20,933**	**149**	**25**	**332**	**563**	**22,002**
AFS investments	**5,093**	**2,569**	**1,290**	**3,019**	**128,410**	**140,381**
Miscellaneous COCI	**8**	**–**	**–**	**–**	**–**	**8**
Total financial assets	**₱190,702**	**₱41,913**	**₱11,217**	**₱14,930**	**₱331,836**	**₱590,598**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱84,151**	**₱–**	**₱–**	**₱–**	**₱–**	**₱84,151**
Savings	**210,829**	**24,917**	**8,030**	**8,910**	**12,636**	**265,322**
Time	**20,172**	**7,524**	**4,020**	**6,408**	**11,905**	**50,029**

(Forward)

	March 31, 2013					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial liabilities at FVPL:						
Financial liabilities designated at FVPL	**₱838**	**₱797**	**₱338**	**₱436**	**₱15,618**	**₱18,027**
Derivative liabilities:						
Pay	**13,900**	**3,059**	**203**	**163**	**–**	**17,325**
Receive	**(13,878)**	**(3,063)**	**(204)**	**(163)**	**–**	**(17,308)**
	22	**(4)**	**(1)**	**–**	**–**	**17**
Bills and acceptances payable	**9,895**	**1,823**	**1,419**	**603**	**1,411**	**15,151**
Subordinated debt	**–**	**114**	**275**	**436**	**11,428**	**12,253**
Accrued interest payable and other liabilities	**14,733**	**750**	**336**	**823**	**5,399**	**22,041**
Total financial liabilities	**₱340,640**	**₱35,921**	**₱14,417**	**₱17,616**	**₱58,397**	**₱466,991**

	December 31, 2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,599	₱–	₱–	₱–	₱–	₱5,599
Due from BSP and other banks	39,692	435	–	1,101	–	41,228
Interbank loans receivable	11,129	251	119	–	–	11,499
Securities held under agreements to resell	18,304	–	–	–	–	18,304
Financial assets at FVPL:						
Held-for-trading:						
Government securities	1,978	14	19	36	677	2,724
Equity securities	251	–	–	–	–	251
Private debt securities	100	1	1	3	29	134
Derivative assets						
Pay	(6,056)	(716)	(22)	(67)	(52)	(6,913)
Receive	6,079	788	24	153	222	7,266
	23	72	2	86	170	353
Designated at FVPL:						
Private debt securities	4	8	1,255	–	–	1,267
Loans receivables - gross	24,188	13,517	5,862	2,125	125,258	170,950
Unquoted debt securities - gross	3,962	44	9	17	3,950	7,982
Other receivables - gross	18,934	–	–	–	–	18,934
AFS investments	557	2,643	2,773	1,487	100,702	108,162
Miscellaneous COCI	1	–	–	–	–	1
Total financial assets	₱124,722	₱16,985	₱10,040	₱4,855	₱230,786	₱387,388
Financial Liabilities						
Deposit liabilities:						
Demand	₱28,164	₱–	₱–	₱–	₱–	₱28,164
Savings	151,002	17,838	7,979	4,892	12,636	194,347
Time	7,524	2,821	1,481	1,784	6,325	19,935
Financial liabilities at FVPL:						
Financial liability designated at FVPL	43	85	6,311	–	–	6,439
Derivative liabilities:						
Pay	9,798	1,162	476	608	213	12,257
Receive	(9,677)	(1,123)	(452)	(518)	(52)	(11,822)
	121	39	24	90	161	435
Bills and acceptances payable	7,753	4,182	806	40	309	13,090
Subordinated debt	54	107	161	322	11,742	12,386
Accrued interest payable and other liabilities	10,828	390	1	374	3,486	15,079
Total financial liabilities	₱205,489	₱25,462	₱16,763	₱7,502	₱34,659	₱289,875

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 Group's trading and structural portfolios.

Trading market risk

Trading market risk exists in the Group 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 Group is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. The Group 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 Group'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 (EXCOM) 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 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 that the aggregate daily losses were greater than the total VaR (in millions).

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
March 31, 2013	**₱24.71**	**₱152.40**	**₱10.66**	**₱187.77**
Average Daily	**9.92**	**129.70**	**8.85**	**148.46**
Highest	**62.63**	**217.98**	**10.77**	**237.26**
Lowest	**0.65**	**62.50**	**6.69**	**70.60**

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 31, 2012	₱4.84	₱80.22	₱7.80	₱92.86
Average Daily	6.61	131.09	8.95	146.64
Highest	16.85	340.31	11.17	354.65
Lowest	0.40	60.87	6.00	77.86

* 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):

	March 31, 2013	December 31, 2012
End of period	**₱2,872.63**	₱2,317.22
Average Daily	**2,079.13**	2,176.61
Highest	**2,909.73**	2,743.57
Lowest	**1,648.25**	1,522.48

Structural Market Risk

Non-trading Market Risk

Interest rate risk
The Group 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 Group to interest rate risk. The Group 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 Group 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 Group (in millions):

	March 31, 2013					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱–**	**₱–**	**₱–**	**₱–**	**₱7,918**	**₱7,918**
Due from BSP and other banks	**35,146**	**30**	–	–	**63,147**	**98,323**
Interbank loans receivable	**8,146**	**130**	–	–	–	**8,276**
Securities held under agreements to resell	**20,000**	–	–	–	–	**20,000**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	–	–	**3,686**	**3,686**
Derivative assets	–	–	–	–	**455**	**455**
Equity securities	–	–	–	–	**301**	**301**
Private debt securities	–	–	–	–	**27**	**27**
Designated at FVPL:						
Segregated fund assets	–	–	–	–	**4,091**	**4,091**
Private debt securities	–	**1,229**	–	–	–	**1,229**
Receivable from customers and other receivables - gross*	**72,251**	**52,351**	**6,728**	**9,737**	**101,893**	**242,960**
Unquoted debt securities - gross	**300**	**60**	–	**2,785**	**8,463**	**11,608**
AFS investments	**6,761**	**395**	**41**	**544**	**94,815**	**102,556**
Miscellaneous COCI	–	–	–	–	**8**	**8**
Total financial assets	**₱142,604**	**₱54,195**	**₱6,769**	**₱13,066**	**₱284,804**	**₱501,438**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱–**	**₱–**	**₱–**	**₱–**	**₱83,945**	**₱83,945**
Savings	**117,738**	**25,461**	**4,970**	**6,484**	**108,694**	**263,347**
Time	**18,303**	**9,379**	**3,179**	**6,539**	**9,920**	**47,320**
Financial liabilities at FVPL	–	**6,097**	–	–	**4,207**	**10,304**
Bills and acceptances payable	**10,970**	**840**	**1,352**	**587**	**1,372**	**15,121**
Subordinated debt	–	–	–	–	**9,942**	**9,942**
Accrued interest and other financial liabilities**	–	–	–	–	**22,789**	**22,789**
Total financial liabilities	**₱147,011**	**₱41,777**	**₱9,501**	**₱13,610**	**₱240,869**	**₱452,768**
Repricing gap	**(₱4,407)**	**₱12,418**	**(₱2,732)**	**(₱544)**	**₱43,935**	**₱48,670**
Cumulative gap	**(4,407)**	**8,011**	**5,279**	**4,735**	**48,670**	–

Note: Non-interest bearing financial assets and liabilities are lumped in greater than 1 year bucket.
*Receivable from customers excludes residual value of leased assets.
**Accrued interest and other financial liabilities include 'Accrued interest payable', 'Accounts payable', 'Insurance contract liabilities', 'Bills purchased - contra', 'Due to other Banks', 'Manager's checks and demand drafts outstanding', 'Payment order payable', 'Deposit on lease contracts', 'Due to Treasurer of the Philippines', 'Margin deposits and cash letters of credit', 'Due to BSP' and other financial liabilities

	December 31, 2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱5,599	₱5,599
Due from BSP and other banks	12,737	–	–	–	28,481	41,218
Interbank loans receivable	11,499	–	–	–	–	11,499
Securities held under agreements to resell	18,300	–	–	–	–	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	–	–	1,971	1,971
Derivative assets	–	–	–	–	455	455
Equity securities	–	–	–	–	250	250
Private debt securities	–	–	–	–	99	99
Designated at FVPL:						
Private debt securities	–	–	1,248	–	–	1,248
Receivable from customers and other receivables - gross*	55,186	21,406	7,303	6,716	59,616	150,227
Unquoted debt securities - gross	217	100	–	2	7,499	7,818
AFS investments	676	1,288	6,785	312	58,864	67,925
Miscellaneous COCI	–	–	–	–	1	1
Total financial assets	₱98,615	₱22,794	₱15,336	₱7,030	₱162,835	₱306,610
Financial Liabilities						
Deposit liabilities:						
Demand	₱–	₱–	₱–	₱–	₱28,152	₱28,152
Savings	63,839	14,859	4,517	3,156	106,422	192,793
Time	8,289	3,807	851	866	6,096	19,909
Financial liabilities at FVPL	–	–	6,196	–	284	6,480
Bills and acceptances payable	8,565	2,050	894	404	1,164	13,077
Subordinated debt	–	–	–	–	9,939	9,939
Accrued interest and other financial liabilities**	–	–	–	–	15,079	15,079
Total financial liabilities	₱80,693	₱20,716	₱12,458	₱4,426	₱167,136	₱285,429
Repricing gap	₱17,922	₱2,078	₱2,878	₱2,604	(₱4,301)	₱21,181
Cumulative gap	17,922	20,000	22,878	25,482	21,181	–

Note: Non-interest bearing financial assets and liabilities are lumped in greater than 1 year bucket.
*Receivable from customers excludes residual value of leased assets.
**Accrued interest and other financial liabilities include 'Accrued interest payable', 'Accounts payable', 'Insurance contract liabilities', 'Bills purchased – contra', 'Due to other Banks', 'Manager's checks and demand drafts outstanding', 'Payment order payable', 'Deposit on lease contracts', 'Due to Treasurer of the Philippines', 'Margin deposits and cash letters of credit', 'Due to BSP' and other financial liabilities

The following table sets forth the impact of changes in interest rates on the Group's repricing gap for the three-month ended March 31, 2013 and for the year ended December 31, 2012 (in millions):

	Three Months Ended March 31, 2013		For the Year Ended December 31, 2012	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱21**	**₱21**	₱104	₱104
-50bps	**(21)**	**(21)**	(104)	(104)
+100bps	**42**	**42**	209	209
-100bps	**(42)**	**(42)**	(209)	(209)

As one of the long-term goals in the risk management process, the Group 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 Group'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 Group and foreign currency-denominated borrowings appearing in the regular books of the Group.

Foreign currency deposits are generally used to fund the Group'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 Group 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. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in millions and in Philippine peso equivalent).

	March 31, 2013		
	USD	**Others**	**Total**
Assets			
COCI and due from BSP	**₱900**	**₱459**	**₱1,359**
Due from other banks	**6,243**	**1,652**	**7,895**
Interbank loans receivable and securities held under agreements to resell	**1,764**	**130**	**1,894**
Loans and receivables	**8,360**	**316**	**8,676**
Financial assets at FVPL	**2,383**	**98**	**2,481**
AFS investments	**5,525**	**1,990**	**7,515**
Other assets	**44**	**3**	**47**
Total assets	**25,219**	**4,648**	**29,867**
Liabilities			
Deposit liabilities	**6,171**	**1,898**	**8,069**
Financial liabilities at FVPL	**1,139**	**–**	**1,139**
Bills and acceptances payable	**5,553**	**138**	**5,691**
Accrued interest and other financial liabilities	**1,590**	**1**	**1,591**
Other liabilities	**2,704**	**141**	**2,845**
Total liabilities	**17,157**	**2,178**	**19,335**
Net Exposure	**₱8,062**	**₱2,470**	**₱10,532**

	December 31, 2012		
	USD	Others	Total
Assets			
COCI and due from BSP	₱644	₱176	₱820
Due from other banks	2,776	622	3,398
Interbank loans receivable and securities held under agreements to resell	1,338	–	1,338
Loans and receivables	5,077	12,423	17,500
Financial assets at FVPL	1,261	102	1,363
AFS investments	3,315	1,205	4,520
Other assets	119	25	144
Total assets	14,530	14,553	29,083
Liabilities			
Deposit liabilities	2,702	1,583	4,285
Bills and acceptances payable	5,454	89	5,543
Accrued interest and other financial liabilities	1,586	1	1,587
Other liabilities	1,698	91	1,789
Total liabilities	11,440	1,764	13,204
Net Exposure	₱3,090	₱12,789	₱15,879

Information relating to the Parent Company's currency derivatives is contained in Note 23. The Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱3.9 million (sold) and ₱4.4 million (bought) as of March 31, 2013 and ₱5.1 million (sold) and ₱4.8 million (bought) as of December 31, 2012.

Prepayment risk
The Parent Company projects prepayment ratio by way of using historical data on loan prepayment rate. The Parent Company's loans prepayment rate is less than 1.49% and 1.41% of the total loan portfolio in 2013 and 2012, respectively. In view of this, management believes that 1.49% and 1.41% are not material enough to warrant a separate set of cash flow analyses. All calculations related to asset and liability management (e.g., as net interest margin analysis) take into account the contractual terms of the financial instrument.

Capital management and management of insurance and financial risks

Governance framework
The Group has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company and individual business unit levels. The Chief Financial Officer (CFO) and Internal Audit Department performs procedures to identify various risks. The results of the procedures are reported to the BOD and necessary actions are taken to mitigate the risks identified.

The policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory framework
Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The Group has an insurance business which is subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, fixed capitalization requirements, risk-based capital requirements).

Capital management
The Group maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders.

To ensure compliance with these externally imposed capital requirements, it is the Group's policy to assess its position against set minimum capital requirements.

Under the requirements of the IC and the Code, the Group should meet the minimum levels set for the following capital requirements: Margin of Solvency (MOS), Minimum Statutory Net Worth and Paid-up Capital, and the Risk-Based Capital (RBC).

Since PNB LII is now 100.00% Filipino-owned, the capital requirements have been reduced significantly and PNB LII's current capital now well exceeds the minimum requirements.

The required investments in government bonds and securities of at least 25.00% of the Minimum Paid-up Capital, under the Section 203 of the Insurance Code, are free from liens and encumbrances.

a) *MOS*
   Under the Code, a life insurance company doing business in the Philippines shall maintain at all times a MOS equal to ₱0.50 million or ₱2.00 per thousand of the total amount of insurance in force as of the preceding calendar year in all policies (except term insurance), whichever is higher. On the other hand, a nonlife insurance company shall maintain at all times MOS equal to ₱0.50 million or 10% of the total amount of its net premiums written during the preceding year, whichever is higher.

   The MOS shall be the excess of the value of its admitted assets as defined under the same Code, exclusive of the minimum paid-up capital, over the amount of its liabilities, unearned premiums, and reinsurance reserves.

   The estimated amounts of the Group's non-admitted assets, as defined in the Code, are included in the accompanying statements of financial position. These assets are subject to final determination by the IC.

   As of March 31, 2013, PNB LII's MOS based on its calculations amounted to ₱394.7 million.

   As of March 31, 2013 and December 31, 2012, PNB Gen's MOS based on its calculations amounted to ₱647.1 million and ₱638.1 million, respectively.

   The final amounts of the MOS can be determined only after the accounts of the PNB Life and PNB Gen have been examined by the IC specifically as to admitted and non-admitted assets as defined in the Code. The 2013 and 2012 MOS will be known only after the IC completes its examination of the accounts of the Group.

If an insurance company fails to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

b) *Minimum statutory net worth and paid up capital*
The Department of Finance Order (DO) 27-06 provides for the capitalization requirements for life, nonlife and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50.00% of the minimum statutory net worth.

On October 29, 2008, the IC issued the Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of IMC No. 10-2006, the scheduled increases due December 31, 2007 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007. Based on this Circular Letter, the required statutory net worth and minimum paid-up capital for December 31, 2011 shall be based on the increase previously scheduled for December 31, 2010.

On June 1, 2012, the Department of Finance issued DO No. 15-2012 which provides for minimum paid up capital requirements of all insurance and professional reinsurance companies to supplement the requirements of DO No. 27-06 after December 31, 2012. Under the said DO, the minimum paid up capital requirements for all existing insurance and professional reinsurers regardless of its citizenship is going to be on a staggered basis for the years December 31, 2012 up to 2020. The DO also allows all existing insurance and professional reinsurance companies a one-time one-year deferral in the compliance to minimum paid up capital requirements provided it has met the RBC hurdle rate based on the schedule set out in the said DO.

The table below shows the amount of minimum paid-up capital and the schedule of compliance per DO No. 15-2012:

Paid up capital	Compliance date
₱250,000,000	On or before December 31, 2012 (Pursuant to DO 27-06 and IMC No. 10-2006)
400,000,000	On or before December 31, 2014
600,000,000	On or before December 31, 2016
800,000,000	On or before December 31, 2018
1,000,000,000	On or before December 31, 2020

On November 22, 2012, the IC issued an advisory to all insurance and reinsurance companies doing business in the Philippines regarding the implementation of DO No. 27-06. According to the advisory, the minimum paid-up capital for December 31, 2012 must at least be equal to ₱250.0 million.

On December 11, 2012, DO No. 15-2012 was issued with a temporary restraining order. Accordingly, the minimum paid up capital requirement would be ₱250.0 million by the end of 2012 as advised by the IC.

On February 5, 2013, the Senate of the Philippines approved the Amended Insurance Code which provides the new capitalization requirements of all existing insurance companies based on networth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required networth and the schedule of compliance per Amended Insurance Code:

Networth	Compliance date
₱250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of March 20, 2013, the Amended Insurance Code has not been signed by the President of the Philippines for it to become a law.

The required minimum statutory net worth and minimum paid-up capital for PNB LII in 2012, being a wholly-owned Filipino life insurance company is ₱500.0 million and ₱250.0 million, respectively. PNB LII has complied with the minimum statutory net worth and paid-up capital requirements based on PNB LII's own calculation.

The required minimum statutory net worth and minimum paid-up capital for PNB Gen in 2012, being a wholly-owned Filipino nonlife insurance company is ₱500.00 million and ₱250.0 million, respectively. PNB Gen has complied with the minimum statutory net worth and paid-up capital requirements based on PNB Gen's own calculation.

c) *RBC requirement*
Insurance Memorandum Circular (IMC) No. 6-2006 provides for the risk-based capital framework for the life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every life and nonlife insurance company is annually required to maintain a minimum RBC ratio of 100.00% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the Group's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC. The RBC requirement is the ratio of the number of insurers which are able to meet the corresponding RBC Hurdle Rate requirement for a given year to the total number of insurers in the industry.

The RBC ratio of PNB LII is 158.76% in 2013, while PNB Gen's RBC ratio is 177.68% in 2013 and 162.00% in 2012.

The final amount of RBC ratio can be determined only after the accounts of the Group have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

d) *Consolidated compliance framework*
IMC 10-2006 integrated the compliance standards for the fixed capitalization and risk-based capital framework for insurers.

Subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2011which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90.00% and the RBC Hurdle Rate is 250.00%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

e) *Unimpaired capital requirement*
IMC 22-2008 provided for the purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statement of financial position should show that the net worth or stockholders' equity is at least equal to the actual paid-up capital.

The Group has complied with all of the above capital requirements for the three-month period ended March 31, 2013 and for the year ended December 31, 2012.

Insurance Risk
The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amounts of insurance liabilities. This is influenced by the frequency of claims, severity of claims, whether actual benefits paid are greater than originally estimated, and subsequent development of long-term claims.

Life Insurance Contracts
To minimize insurance risks, PNB LII strictly adheres to prudent underwriting standards in assessing insurance applications. These underwriting standards include a schedule of medical and non-medical requirements for specific range of ages and sum assured. Some policyholders are charged with additional premium in the form of flat or multiple extra premiums due to extra risks resulting from the applicant's occupation, health and lifestyle. Applications for insurance may be denied or postponed for certain substandard cases. To guard against anti-selection, insurance applications that do not establish insurable interest are rejected. Statements of assets and liabilities may also be required from the applicant to justify the sum assured applied for, and his ability to pay the premium.

Frequency of claims
For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected. In the Philippines, higher-than-expected claims also arise from typhoons, landslides, and other geological events.

For contracts with DPF, a portion of the insurance risk is effectively shared with the policy owner, as policy dividends may be reduced due to adverse claims and investment experience.

For unit-linked insurance policies where the cost of insurance charges is not guaranteed, insurance risk is borne mostly by the policyholders. PNB LII has the right to alter these charges based on its mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

PNB LII manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are pooled into a sufficiently large portfolio. Medical selection is also included in the underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. PNB LII has a retention limit of ₱2.5 million on any standard risk. PNB LII reinsures the excess of the insured benefit over ₱2.5 million for standard risks (from a medical point of view) under an excess of loss reinsurance arrangement. PNB LII's risk retention is lower for medically impaired or substandard lives, which involves higher risks. PNB LII also has a Catastrophe Reinsurance agreement, which protects PNB LII in case of a catastrophic event resulting to multiple death claims.

The table below presents the concentration of individually insured benefits across different bands of insured ages as measured by the face amount (before reinsurance) and net amount at risk (NAAR), after reinsurance:

		March 31, 2013			
		Before reinsurance		After reinsurance	
Age bands (in years)	Policy count	Face amount (in thousands)	Concentration (%)	NAAR (in thousands)	Concentration (%)
0-15	12,553	₱3,268,517	18	₱1,735,147	16
16-25	6,026	2,175,767	12	1,375,306	13
26-35	7,855	3,005,865	16	1,995,275	18
36-45	8,472	3,892,400	21	2,470,321	23
46-55	7,314	3,671,620	20	2,017,508	19
56-65	3,102	1,846,143	10	968,478	9
66-75	399	361,568	2	253,247	2
76 and above	7	19,000	1	18,984	0
	45,728	₱18,240,880	100	₱10,834,266	100

This table includes whole life, endowment, anticipated endowment, and term insurance contracts, thus the insured risk is a mixture of death and continued survival. NAAR is the net amount at risk, which is the difference between the face amount and the policy reserve. It is the net amount that would be payable upon death less liability released. The risk is spread over the younger through middle-aged bands.

Sources of uncertainty in the estimation of future benefit payments and premium receipts
Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behavior.

PNB LII uses appropriate tables of standard mortality for pricing and valuation of liabilities. An investigation into the actual mortality experience of PNB LII is carried out annually, but the experience is not yet considered statistically significant.

PNB LII maintains persistency statistics to monitor actual lapse experience against pricing assumptions and performance standards. Statutory reserves are calculated using mortality decrement only, without considering possibility of lapses. This results in a more conservative liability as gains on surrender are not anticipated in the valuation method.

Nonlife Insurance Contracts

Nature of risk
PNB Gen principally issues the following types of general insurance contracts: fire, motor, accident, casualty, marine, engineering and surety. Risks under general insurance policies usually cover a twelve-month duration.

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities.

These risks vary significantly in relation to the location of the risk insured by PNB Gen, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of PNB Gen. PNB Gen further enforce a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

PNB Gen has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on PNB Gen's risk appetite as decided by management.

The following table sets out the concentration of the claims liabilities by type of contract:

	March 31, 2013			December 31, 2012		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities**	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Fire	**₱2,094,614**	**₱1,934,003**	**₱160,611**	₱2,125,786	₱1,985,235	₱140,551
Marine	**98,034**	**97,605**	**429**	100,400	96,394	4,006
Engineering	**58,510**	**41,044**	**17,466**	60,800	45,470	15,330
Motorcar	**53,145**	**1,654**	**51,491**	53,717	2,459	51,258
Casualty	**69,825**	**59,471**	**10,354**	36,276	24,894	11,382
Surety	**26,066**	**9,868**	**16,198**	24,389	8,309	16,080
Accident	**8,277**	**75**	**8,202**	5,526	48	5,478
	₱2,408,471	**₱2,143,720**	**₱264,751**	₱2,406,894	₱2,162,809	₱244,085

5. Fair Value Measurement

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated statement of financial position at the end of each reporting period. These include financial assets and liabilities at FVPL and AFS investments. Non-recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated statement of financial position in particular circumstances. These include land and buildings measured at revalued amount and investment properties measured at cost but with fair value measurement disclosure.

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: inputs are unobservable inputs for the asset or liability

The Group held the following assets and liabilities measured at recurring and non-recurring fair value measurements and their corresponding level in fair value hierarchy:

	March 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring Fair Value Measurements				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱3,686,079**	**₱–**	**₱–**	**₱3,686,079**
Derivative assets	**429,523**	**25,430**	**–**	**454,953**
Private debt securities	**27,166**	**–**	**–**	**27,166**
Equity securities	**300,852**	**–**	**–**	**300,852**
Designated at FVPL:				
Segregated fund assets	**1,324,171**	**–**	**2,767,183**	**4,091,354**
Private debt securities	**–**	**1,229,018**	**–**	**1,229,018**
	₱5,767,791	**₱1,254,448**	**₱2,767,183**	**₱9,789,422**
AFS investments:				
Government securities	**₱84,503,408**	**₱–**	**₱–**	**₱84,503,408**
Other debt securities	**13,512,645**	**1,947,742**	**–**	**15,460,387**
Equity securities	**1,560,959**	**–**	**–**	**1,560,959**
	₱99,577,012	**₱1,947,742**	**₱–**	**₱101,524,754**
Financial Liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities	**₱1,400,636**	**₱–**	**₱2,767,183**	**₱4,167,819**
Private debt securities	**–**	**–**	**6,096,508**	**6,096,508**
Derivative liabilities	**34,626**	**5,370**	**–**	**39,996**
	₱1,435,262	**₱5,370**	**₱8,863,691**	**₱10,304,323**
Non-Recurring Fair Value Measurements				
Investment property*				
Land	**₱–**	**₱23,867,325**	**₱–**	**₱23,867,325**
Buildings and imrprovements	**–**	**3,693,447**	**–**	**3,693,447**
	–	**27,560,772**	**–**	**27,560,772**
Property and equipment	**–**			
Land	**–**	**14,549,782**	**–**	**14,549,782**
Buildings	**–**	**6,923,769**	**–**	**6,923,769**
	–	**21,473,551**	**–**	**21,473,551**
	₱–	**₱49,034,323**	**₱–**	**₱49,034,323**

** Based on the fair values from appraisal reports different from carrying amounts which are at cost. Refer to Note 13.*

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱1,970,754	₱–	₱–	₱1,970,754
Derivative assets	59,044	395,457	–	454,501
Private debt securities	99,502	–	–	99,502
Equity securities	250,552	–	–	250,552
Designated at FVPL:				
Private debt securities	–	1,247,756	–	1,247,756
	₱2,379,852	₱1,643,213	₱–	₱4,023,065
AFS investments:				
Government securities	₱55,558,527	₱–	₱–	₱55,558,527
Other debt securities	8,979,888	1,940,245	–	10,920,133
Equity securities	440,230	–	–	440,230
	₱64,978,645	₱1,940,245	₱–	₱66,918,890
Financial Liabilities				
Financial liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,196,070	₱6,196,070
Derivative liabilities	–	283,751	–	283,751
	₱–	₱283,751	₱6,196,070	₱6,479,821

The following table presents a comparison of the carrying amounts and fair values of assets and liabilities except those where carrying values approximate or equals their fair values (amounts in thousands):

	March 31, 2013		December 31, 2012	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
Financial Assets				
Loans and Receivables				
Receivables from customers:				
Business loans	**₱160,730,819**	**₱165,019,678**	₱83,053,202	₱84,566,445
GOCCs and NGAs	**25,141,326**	**25,146,436**	24,410,497	24,410,497
Consumers	**22,341,389**	**22,741,749**	11,196,835	11,483,394
LGUs	**7,822,549**	**7,924,346**	7,157,470	7,215,785
Fringe benefits	**631,085**	**656,530**	643,608	648,299
Unquoted debt securities	**7,649,427**	**9,071,990**	3,859,268	5,131,586
Financial Liabilities				
Financial liabilities at amortized cost				
Deposit liabilities:				
Time	**47,319,272**	**47,593,654**	19,908,821	20,134,885
Subordinated debt	**9,942,407**	**10,921,768**	9,938,816	10,956,745

The above assets and liabilities are measured at Level 2.

The methods and assumptions used by the Group in estimating the fair value of the assets and liabilities 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.

Segregated fund assets and liabilities under financial assets and liabilities designated at FVPL - The fair values of equity and debt securities under level 1 of the fair value hierarchy are determined by reference to quoted market bid prices, at the close of business reporting date, or the last reporting date. The fair values of equity-linked notes under level 3 of the fair value hierarchy are determined by running simulations on the underlying indices to project the possible payouts of the instruments. Instruments included in Level 3 include the subordinated debt and segregated fund assets and liabilities for which there is currently no active market. In applying the discounted cash flow analysis to determine the fair value of the subordinated debt and segregated fund assets and liabilities designated at FVPL, the Group used discount rates ranging from 1.25% to 1.32% and from 1.38% to 3.63% as of March 31, 2013 and December 31, 2012, respectively.

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

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. Other receivables do not have readily available quoted market prices. These are reported at cost and are not significant in relation to the Group's total loan and receivable portfolio. The discount rate used in estimating the fair value of loans and receivables ranges from 0.25% to 9.25% and from 0.30% to 9.25% as of March 31, 2013 and December 31, 2012 for peso-denominated receivables, respectively, and 3.25% both as of March 31, 2013 and December 31, 2012, for foreign currency-denominated receivables.

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

Time deposit liabilities and subordinated debt including those designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 0.23% to 4.70% and from 1.38% to 3.63% as of March 31, 2013 and December 31, 2012, respectively.

Land and buildings under property and equipment and Investment property - Fair value is determined based on the appraisal reports of external and internal appraised valuers.

As of March 31, 2013 and December 31, 2012, 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:

	March 31, 2013 (Three Months)	December 31, 2012 (One Year)
Financial assets		
Balance at beginning of period	**₱–**	₱–
Add acquisition arising from business combination	**2,755,232**	–
Add total gain recorded in profit or loss	**11,951**	–
Balance at end of period	**₱2,767,183**	₱–
Financial liabilities		
Balance at beginning of period	**6,196,070**	6,479,170
Add acquisition arising from business combination	**2,755,232**	–
Less total gain recorded in profit and loss	**(87,611)**	(283,100)
Balance at end of period	**₱8,863,691**	₱6,196,070

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 subordinated debt designated at FVPL (amounts in million pesos):

	March 31, 2013		December 31, 2012	
	Statement of Income	**Equity**	Statement of Income	Equity
Financial Liability				
+50bps	**₱7**	**₱7**	₱14	₱14
- 50bps	**(7)**	**(7)**	(14)	(14)
+100bps	**13**	**13**	90	90
-100bps	**(13)**	**(13)**	(90)	(90)

Since the fair values of segregated fund assets and liabilities classified as Level 3 items are immaterial relative to the overall size of the Group's assets and liabilities, the Group did not present the potential effect of change in valuation assumptions to the value of segregated fund assets and liabilities.

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.

Other Segments - include but not limited to insurance, leasing, remittances and other support services. 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 board of directors, 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 and measurement of investment properties. The report submitted to CODM represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

	Three Months Ended March 31, 2013					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱501,613	₱2,298,028	₱1,271,444	₱107,182	(₱79,225)	₱4,099,042
Interest expense	781,062	212,360	472,736	4,660	5,937	1,476,755
Net interest margin	(279,449)	2,085,668	798,708	102,522	(85,162)	2,622,287
Other income	335,950	334,850	3,106,053	1,108,648	236,350	5,121,851
Other expenses	1,477,492	477,093	62,082	651,871	(1,336,504)	1,332,034
Segment result	(1,420,991)	1,943,425	3,842,679	559,299	1,487,692	6,412,104
Inter-segment						
Imputed income	1,089,959	–	–	–	–	1,089,959
Imputed cost	–	(399,213)	(690,746)	–	–	(1,089,959)
Segment result to third party	(₱331,032)	₱1,544,212	₱3,151,933	₱559,299	₱1,487,692	₱6,412,104
Unallocated expenses						2,915,588
Net income before share in net income of an associate and income tax						3,496,516
Share in net income of an associate						4,975
Net income before income tax						3,501,491
Income tax						661,892
Net income						2,839,599
Non-controlling interest						12,179
Net income for the period attributable to equity holders of the Parent Company						₱2,827,420
Other Segment Information						
Capital expenditures	₱165,111	₱17,675	₱720	₱2,613	₱–	₱186,119

(Forward)

	Three Months Ended ended March 31, 2013					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Depreciation and amortization	**₱44,578**	**₱69,004**	**₱1,671**	**₱113,307**	**₱–**	**₱228,560**
Unallocated depreciation and amortization						**67,975**
Total depreciation and amortization						**₱296,535**
Provision for (reversal of) impairment, credit and other losses	**₱57,262**	**₱120,910**	**(₱275)**	**₱400**	**₱1,751**	**₱180,048**

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

	As of March 31, 2013					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱285,769,540**	**₱165,671,235**	**₱233,855,869**	**₱77,858,603**	**(₱214,611,939)**	**₱548,543,308**
Unallocated assets						**1,856,586**
Total assets						**₱550,399,894**
Segment liabilities	**₱512,323,797**	**₱41,974,389**	**₱45,656,716**	**₱41,231,860**	**(₱203,403,304)**	**₱437,783,458**
Unallocated liabilities						**26,126,708**
Total liabilities						**₱463,910,166**

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

	Three Months Ended March 31, 2012 (As restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱224,417	₱1,666,469	₱892,183	₱48,247	₱112,530	₱2,943,846
Interest expense	553,501	123,672	415,768	522	(12,673)	1,080,790
Net interest margin	(329,084)	1,542,797	476,415	47,725	125,203	1,863,056
Other income	218,577	297,923	1,933,838	603,435	95,238	3,149,011
Other expenses	577,858	290,436	481,406	507,238	354,509	2,211,447
Segment result	(688,365)	1,550,284	1,928,847	143,922	(134,068)	2,800,620
Inter-segment						
Imputed income	1,106,041	–	–	–	–	1,106,041
Imputed cost	–	(542,362)	(563,679)	–	–	(1,106,041)
Segment result to third party	₱417,676	₱1,007,922	₱1,365,168	₱143,922	(₱134,068)	₱2,800,620
Unallocated expenses						1,291,510
Net income before share in net income of an associate and income tax						1,509,110
Share in net income of an associate						18,300
Net income before income tax						1,527,410
Income tax						238,084
Net income						1,289,326
Non-controlling interest						2,129
Net income for the year attributable to equity holders of the Parent Company						₱1,287,197
Other Segment Information						
Capital expenditures	₱109,483	₱2,311	₱1,415	₱5,267	₱–	₱118,476
Depreciation and amortization	₱36,028	₱41,800	₱1,490	₱18,850	₱32,786	₱130,954
Unallocated depreciation and amortization						80,269
Total depreciation and amortization						₱211,223
Provision for (reversal of) impairment, credit and other losses	(₱46,924)	₱49,511	₱439,647	₱950	(₱84,207)	₱358,977

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

	As of December 31, 2012 (As restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱50,745,189	₱95,365,478	₱147,433,116	₱ 38,395,849	(₱4,754,067)	₱327,185,565
Unallocated assets						3,005,186
Total assets						₱330,190,751
Segment liabilities	₱205,217,147	₱32,452,570	₱40,985,859	₱16,570,501	(₱6,489,036)	₱288,737,041
Unallocated liabilities						2,961,465
Total liabilities						₱291,698,506

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

	As of January 1, 2012 (As restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱48,015,755	₱124,180,936	₱102,414,597	₱35,781,723	(₱2,356,960)	₱308,036,051
Unallocated assets						3,515,369
Total assets						₱311,551,420
Segment liabilities	₱187,646,586	₱32,584,614	₱44,265,932	₱10,478,857	(₱1,129,538)	₱273,846,451
Unallocated liabilities						3,898,024
Total liabilities						₱277,744,475

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 and credit commitments items as of March 31, 2013, December 31 and January 1, 2012, and capitalized expenditures and revenues for the three-month periods ended March 31, 2013 and 2012 by geographic region of the Group follows:

	Assets			**Liabilities**			**Credit Commitments**		
	March 31, 2013	December 31, 2012 (As restated)	January 1, 2012 (As restated)	**March 31, 2013**	December 31, 2012 (As restated)	January 1, 2012 (As restated)	**March 31, 2013**	December 31, 2012 (As restated)	January 1, 2012 (As Restated)
Philippines	**₱521,707,915**	₱319,698,926	₱300,293,908	**₱443,691,410**	₱284,122,475	₱269,832,296	**₱20,480,786**	₱442,084	₱2,026,118
Asia (excluding Philippines)	**21,447,311**	4,786,765	5,136,569	**16,077,975**	4,120,423	4,320,174	**1,685,815**	515,684	70,893
USA and Canada	**6,075,838**	5,156,870	5,279,980	**3,581,539**	3,150,382	3,069,855	**22,765**	37,606	36,558
United Kingdom	**928,873**	308,233	541,984	**507,996**	76,051	275,895	–	–	–
Other European Union Countries	**239,957**	239,957	298,979	**51,246**	229,175	246,255	–	–	–
	₱550,399,894	₱330,190,751	₱311,551,420	**₱463,910,166**	₱291,698,506	₱277,744,475	**₱22,189,366**	₱995,374	₱2,133,569

	Capital Expenditures		**Revenues**	
	March 31, 2013	March 31, 2012	**March 31, 2013**	March 31, 2012
Philippines	**₱179,770**	₱117,720	**₱8,843,731**	₱5,881,908
Asia (excluding Philippines)	**2,283**	203	**185,953**	123,716
USA and Canada	**–**	553	**166,523**	71,814
United Kingdom	**4,047**	–	**26,293**	33,379
Other European Union Countries	**19**	–	**3,368**	340
	₱186,119	₱118,476	**₱9,225,868**	₱6,111,157

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 business segments.

7. **Financial Assets at Fair Value Through Profit or Loss**

	March 31, 2013	December 31, 2012
Held-for-trading:		
Government securities	**₱3,686,079**	₱1,970,754
Derivative assets (Notes 23 and 35)	**454,953**	454,501
Equity securities	**300,852**	250,552
Private debt securities	**27,166**	99,502
	4,469,050	2,775,309
Designated at FVPL:		
Segregated fund assets (Note 18)	**4,091,354**	–
Private debt securities	**1,229,018**	1,247,756
	5,320,372	1,247,756
	₱9,789,422	₱4,023,065

This account consists of:

Government and private debt securities of the Group include unrealized gain of ₱82.4 million and ₱50.1 million as of March 31, 2013 and December 31, 2012, respectively.

Equity securities of the Group include unrealized gain of ₱13.8 million as of March 31, 2013 and unrealized loss of ₱3.9 million as of December 31, 2012.

As of March 31, 2013 and December 31, 2012, the effective interest rates of government securities range from 0.34% to 5.49% and from 0.67% to 6.72%, respectively.

As of March 31, 2013 and December 31, 2012, the effective interest rates of private debt securities range from 3.71% to 7.20% and from 3.95% to 7.20%, respectively.

Segregated fund assets designated as financial asset at FVPL refer to the considerations received from unit-linked insurance contracts invested by PNB LII in designated funds. On March 15, 2005 and June 17, 2005, the Insurance Commission approved PNB LII's license to sell single-pay and regular-pay unit-linked insurance products, respectively.

Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The equity of each policyholder in the segregated fund assets is determined by assigning a number of units to each policyholder, corresponding to the net amount deposited in relation to the market value at the time of contribution. The value per unit may increase or decrease depending on the market value of the underlying assets of the corresponding segregated funds.

As of March 31, 2013, the segregated fund assets consist of ₱2.95 billion peso funds and ₱1.14 billion dollar funds. The segregated fund assets include the following equity-linked notes:

Equity-linked notes	Description
Asian Summit	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of a basket of five Asian equity indices.
Summit Select	A single-pay variable life insurance product which invests the single premium, net of premium charges, into 5-Year PHP-Linked USD Participation Note which is linked to the performance of ING Emerging Markets Consumption VT 10.00% Index.
Dollar Income Optimizer	A single-pay variable life insurance product which invests the single premium, net of premium charges, into UBS seven (7)-Year Structured Note which is linked to the performance of a basket of high quality global funds chosen to offer income and potential for capital appreciation.

Debt securities designated as financial assets at FVPL also include 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 March 31, 2013 and December 31, 2012, unrealized loss from financial assets designated at FVPL amounted to ₱11.1 million and unrealized gain of ₱16.3 million, respectively.

On March 22 and August 17, 2012, the Parent Company pre-terminated investments in CLN designated as financial assets at FVPL with a total face amount of USD47.5 million or ₱2.0 billion and USD15.0 million or ₱636.3 million, respectively, in which the Parent Company realized trading gain of USD0.2 million or ₱8.3 million. The carrying amount of the preterminated securities as of pre-termination dates amounted to USD48.1 million or ₱2.1 billion and USD14.8 million or ₱628.2 million, respectively.

8. Available-for-Sale Investments

This account consists of:

	March 31, 2013	December 31, 2012
Government securities (Notes 17, 19 and 31)	**₱84,503,408**	₱55,558,527
Other debt securities (Note 23)	**15,460,387**	10,920,133
Equity securities - net of allowance for impairment losses (Note 16)	**1,663,831**	518,819
	₱101,627,626	₱66,997,479

As of March 31, 2013 and December 31, 2012, unquoted AFS equity securities of the Group amounted to ₱102.9 million and ₱78.6 million , respectively. No impairment loss has been recognized on these securities for the three-month periods ended March 31, 2013 and 2012.

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

As of March 31, 2013, effective interest rates range from 2.35% to 8.15% and from 0.75% to 6.98% for peso-denominated and foreign currency-denominated AFS investments, respectively. As of December 31, 2012, effective interest rates range from 2.35% to 8.15% and from 0.98% to 5.23% for peso-denominated and foreign currency-denominated AFS investments, respectively.

As of March 31, 2013 and December 31, 2012, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged to fulfill the Parent Company's collateral requirements for the peso rediscounting facility of BSP amounted to ₱2.9 billion and ₱2.8 billion, respectively (Note 35). BSP has an obligation to return the securities to the Parent Company once the obligations have been settled. There are no other significant terms and conditions associated with the pledged investments.

As of March 31, 2013 and December 31, 2012, the fair value of the AFS investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to ₱6.3 billion and ₱3.5 billion, respectively (Note 35). The counterparties have an obligation to return the securities to the Parent Company once the obligations have been settled. There are no other significant terms and conditions associated with the pledged investments.

Interest income on trading and investment securities consists of:

	Three Months Ended	
	March 31, 2013	March 31, 2012
AFS investments	**₱662,548**	₱633,831
Financial assets at FVPL	**265,330**	168,681
	₱927,878	₱802,512

Trading and investment securities gains - net consist of:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Financial assets at FVPL:		
Held-for-trading	**₱401,161**	₱58,571
Derivatives (Note 23)	**23,019**	4,030
Designated at FVPL	**(11,116)**	17,310
AFS investments	**2,590,049**	1,506,817
Financial liabilities at FVPL:		
Derivative liabilities (Note 23)	**169,430**	5,708
Designated at FVPL	**99,562**	157,393
	₱3,272,105	₱1,749,829

The movements in Net unrealized gains on AFS investments, gross of deferred tax, are as follows:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Balance at the beginning of the period	**₱1,046,108**	₱776,980
Unrealized gains recognized in equity	**4,532,018**	1,006,263
Realized gains	**(2,590,049)**	(1,506,817)
Balance at end of period	**₱2,988,077**	₱276,426

Included in AFS investments are pledged securities for the Surety Bond issued by PNB Gen. As of March 31, 2013 and December 31, 2012, the carrying value of these pledged securities amounted to ₱975.3 million and ₱817.1 million, respectively.

Reclassification of Financial Assets
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 to hold them until maturity, when it disposed of more than an 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 at reclassification date is recognized in OCI.

As of March 31, 2013 and December 31, 2012, the carrying value of the securities reclassified out of HTM investments to AFS investments amounted to ₱2.0 billion and ₱1.9 billion, respectively.

For the three-month periods ended March 31, 2013 and 2012, the net unrealized (loss) gain reclassified from equity to profit or loss due to sale of investments reclassified to AFS amounted to(₱12.7) million and ₱299.6 million, respectively.

Under PAS 39, tainting of HTM investments due to disposal prohibits the Parent Company from classifying financial assets as HTM investments for three years starting from the tainting date.

9. Loans and Receivables

This account consists of:

	March 31, 2013	December 31, 2012
Receivable from customers:		
Loans and discounts	**₱204,505,856**	₱124,072,963
Customers' liabilities on acceptances, letters of credit and trust receipts	**8,689,121**	4,150,208
Bills purchased	**3,844,940**	2,556,211

(Forward)

	March 31, 2013	December 31, 2012
Credit card receivables	**₱3,529,601**	₱286,623
Lease contracts receivable (Note 28)	**2,863,730**	2,043,456
	223,433,248	133,109,461
Less unearned and other deferred income	**1,117,894**	910,617
	222,315,354	132,198,844
Unquoted debt securities (Note 17)	**11,608,083**	7,818,199
Other receivables:		
Accounts receivable	**8,669,857**	7,517,056
Accrued interest receivable	**7,289,293**	6,190,680
Sales contract receivables	**5,078,871**	4,633,079
Miscellaneous	**543,010**	593,434
	255,504,468	158,951,292
Less allowance for credit losses (Note 16)	**14,143,544**	14,243,783
	₱241,360,924	₱144,707,509

The separate valuation allowance of acquired loans and receivables were not recognized by PNB on the effectivity date of the acquisition as these receivables were measured at fair value on acquisition date. Any uncertainties about future cash flows of these receivables were included in their fair value measurement (see Note 14).

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

	March 31, 2013							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱152,912,832	₱23,892,662	₱7,927,057	₱19,126,328	₱646,977	₱–	₱–	₱204,505,856
Customers' liabilities on acceptances, letters of credit and trust receipts	8,682,738	6,383	–	–	–	–	–	8,689,121
Bills purchased	2,353,272	1,314,938	–	176,730	–	–	–	3,844,940
Credit card accounts	–	–	–	3,529,601	–	–	–	3,529,601
Lease contracts receivable (Note 28)	2,862,007	–	–	1,723	–	–	–	2,863,730
	166,810,849	25,213,983	7,927,057	22,834,382	646,977	–	–	223,433,248
Less unearned and other deferred income	1,059,368	–	–	58,526	–	–	–	1,117,894
	165,751,481	25,213,983	7,927,057	22,775,856	646,977	–	–	222,315,354
Unquoted debt securities	–	–	–	–	–	11,608,083	–	11,608,083
Other receivables:								
Accounts receivable	–	–	–	–	–	–	8,669,857	8,669,857
Accrued interest receivable	–	–	–	–	–	–	7,289,293	7,289,293
Sales contract receivables	–	–	–	–	–	–	5,078,871	5,078,871
Miscellaneous	–	–	–	–	–	–	543,010	543,010
	165,751,481	25,213,983	7,927,057	22,775,856	646,977	11,608,083	21,581,031	255,504,468
Less allowance for credit losses (Note 16)	4,622,605	72,657	104,508	434,467	15,892	3,958,656	4,934,759	14,143,544
	₱161,128,876	₱25,141,326	₱7,822,549	₱22,341,389	₱631,085	₱7,649,427	₱16,646,272	₱241,360,924

	December 31, 2012							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱83,058,722	₱21,598,814	₱7,287,123	₱11,469,948	₱658,356	₱–	₱–	₱124,072,963
Customers' liabilities on acceptances, letters of credit and trust receipts	2,658,590	1,491,618	–	–	–	–	–	4,150,208
Bills purchased	1,165,415	1,390,796	–	–	–	–	–	2,556,211
Credit card accounts	–	–	–	286,623	–	–	–	286,623
Lease contracts receivable (Note 28)	2,041,954	–	–	1,502	–	–	–	2,043,456
	88,924,681	24,481,228	7,287,123	11,758,073	658,356	–	–	133,109,461
Less unearned and other deferred income	910,511	–	–	106	–	–	–	910,617
	88,014,170	24,481,228	7,287,123	11,757,967	658,356	–	–	132,198,844
Unquoted debt securities	–	–	–	–	–	7,818,199	–	7,818,199
Other receivables:								
Accounts receivable	–	–	–	–	–	–	7,517,056	7,517,056
Accrued interest receivable	–	–	–	–	–	–	6,190,680	6,190,680
Sales contract receivables	–	–	–	–	–	–	4,633,079	4,633,079
Miscellaneous	–	–	–	–	–	–	593,434	593,434
	88,014,170	24,481,228	7,287,123	11,757,967	658,356	7,818,199	18,934,249	158,951,292
Less allowance for credit losses (Note 16)	4,631,725	70,731	129,653	561,132	14,748	3,958,931	4,876,863	14,243,783
	₱83,382,445	₱24,410,497	₱7,157,470	₱11,196,835	₱643,608	₱3,859,268	₱14,057,386	₱144,707,509

Refer to Note 32 for the loans and receivables to related parties.

As of March 31, 2013 and December 31, 2012, 83.45% and 90.89%, respectively, of the total receivable from customers of the Group were subject to quarterly interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.65% to 19.75% and 2.25% to 12.97% as of March 31, 2013 and December 31, 2012, respectively, for foreign currency-denominated receivables, and from 1.00% to 25.00% and from 0.85% to 18.50% as of March 31, 2013 and December 31, 2012, respectively, for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 1.76% to 15.00% as of March 31, 2013 and December 31, 2012.

The EIR of 'Receivable from customers', 'Unquoted debt instruments' and 'Sales contract receivables' range from 1.65% to 12.97% and from 2.25% to 12.97% as of March 31, 2013 and December 31, 2012, repectively, for foreign currency-denominated receivables, and from 0.50% to 47.40% and from 0.85% to 47.40% as of March 31, 2013 and December 31, 2012, respectively, for peso-denominated receivables.

Loans amounting to ₱0.7 billion and ₱2.0 billion as of March 31, 2013 and December 31, 2012, respectively, have been pledged to the BSP to secure the Parent Company's availments under the BSP rediscounting privileges which are included in Bills payable (see Notes 19 and 35). The pledged loans will be released when the underlying transaction is terminated. In the event of the Parent Company's default, BSP is entitled to apply the collateral in order to settle the rediscounted bills.

Unquoted debt instruments

Unquoted debt instruments include the zero-coupon notes received by the Parent Company on October 15, 2004, 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 National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of March 31, 2013 and December 31, 2012, these notes were fully impaired (See Note 33).

As of March 31, 2013 and December 31, 2012, 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 March 31, 2013 and December 31, 2012, the sinking fund amounted to ₱5.3 billion and ₱5.2 billion, respectively, earning an average rate of return of 8.82% per annum. Management expects that the value of the sinking fund by 2014 will be more than adequate to cover the full redemption value of the 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 March 31, 2013 and December 31, 2012, the balance of these receivables amounted to ₱3.4 billion, and the transferred liabilities (included under 'Bills payable to BSP and local banks' - see Note 19 and 'Accrued interest payable') amounted to ₱3.2 billion. The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱262.5 million as of March 31, 2013 and December 31, 2012. The remaining 40.00% equity ownership of the Parent Company in Maybank was sold in June 2000 (see Note 33).

Finance lease receivable
An analysis of the Group's finance lease receivables as of March 31, 2013 and December 31, 2012 is presented as follows (amounts in thousands):

	March 31, 2013	December 31, 2012
Gross investment in finance lease receivables		
Due within one year	**₱1,091,550**	₱778,749
Due beyond one year but not over five years	**1,374,122**	935,464
	2,465,672	1,714,213
Residual value of leased equipment		
Due within one year	**133,670**	110,562
Due beyond one year but not over five years	**264,388**	218,681
	398,058	329,243
Less unearned lease income	**250,495**	232,096
Net investment in finance lease receivables	**₱2,613,235**	₱1,811,360

BSP Reporting

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

	March 31, 2013		December 31, 2012	
	Carrying Amount	%	Carrying Amount	%
Loans and Receivables				
Receivable from customers:				
Primary target industry:				
Wholesale and retail	**₱38,941**	**17.43**	₱21,496	16.15
Manufacturing	**31,305**	**14.01**	13,317	10.00
Electricity, gas and water	**26,143**	**11.70**	18,180	13.66
Public administration and defense	**24,233**	**10.84**	22,766	17.10
Transport, storage and communication	**23,975**	**10.73**	17,051	12.81
Financial intermediaries	**16,280**	**7.29**	10,207	7.67
Agriculture, hunting and forestry	**3,491**	**1.56**	2,899	2.18
Secondary target industry:				
Real estate, renting and business activities	**28,950**	**12.96**	11,434	8.59
Construction	**5,065**	**2.27**	2,349	1.77
Others	**25,050**	**11.21**	13,410	10.07
	₱223,433	**100.00**	₱133,109	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:

	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
Secured:				
Real estate mortgage	**₱51,292,582**	**22.96**	₱21,457,030	16.12
Chattel mortgage	**6,013,561**	**2.69**	4,336,447	3.26
Bank deposit hold-out	**2,170,522**	**0.97**	1,615,415	1.21
Shares of stocks	**1,479,993**	**0.66**	358,267	0.27
Others	**31,047,089**	**13.90**	21,660,562	16.27
	92,003,747	**41.18**	49,427,721	37.13
Unsecured	**131,429,501**	**58.82**	83,681,740	62.87
	₱223,433,248	**100.00**	₱133,109,461	100.00

Non-performing Loans (NPLs) classified as secured and unsecured as reported to BSP follows:

	March 31, 2013	December 31, 2012
Secured	**₱7,179,566**	₱3,801,846
Unsecured	**3,519,783**	2,662,759
	₱10,699,349	₱6,464,605

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. Effective January 1, 2013, the exclusion of NPLs classified as loss but are fully covered by allowance was removed by the BSP through Circular No. 772. Previous 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 NPLs not fully covered by allowance for credit losses of the Parent Company as of December 31, 2012 follow:

	December 31, 2012
Total NPLs	₱6,464,605
Less NPLs fully covered by allowance for credit losses	2,697,422
	₱3,767,183

As of March 31, 2013, based on the revised definition of NPL under Circular No. 772, NPLs of the Parent Company as reported to BSP amounted to ₱10.7 billion. Most of these loans are secured by real estate or chattel mortgages. Gross and net NPL ratios of the Group are 4.47% and 1.33%, respectively.

Restructured loans of the Group as of March 31, 2013 and December 31, 2012 amounted to ₱2.6 billion.

Interest income on loans and receivables consists of:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Receivable from customers and sales contract receivables	**₱2,874,817**	₱1,925,293
Unquoted debt securities	**39,315**	18,962
	₱2,914,132	₱1,944,255

Interest income accrued on impaired loans and receivable of the Group amounted to ₱64.8 million and ₱94.6 million for the three-month periods ended March 31, 2013 and 2012, respectively (Note 16).

10. Receivable from Special Purpose Vehicle

The Group has receivable from SPV, OPII, which was deconsolidated under PFRS 10 (see Note 2).

As of March 31, 2013 and December 31, 2012, receivable from SPV represents fully provisioned subordinated notes received by the Parent Company from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between the Parent Company, Golden Dragon Star Equities and OPII for the sale of the NPAs were executed on December 19, 2006. OPII was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPII has been financed through the issuance of equity securities and subordinated debt securities. No income was recognized from OPII in 2013.

The more significant terms of the sale are as follows:

a. Certain NPAs of the Parent Company were 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 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.

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 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 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.

11. **Property and Equipment**

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

	March 31, 2013 (Three Months)		
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Cost			
Balance at beginning of period	**₱3,121,098**	**₱458,529**	**₱3,579,627**
Additions	**117,925**	**41,651**	**159,576**
Acquired from business combination (Note 14)	**467,156**	**119,458**	**586,614**
Disposals/others	**(86,076)**	**(10,052)**	**(96,128)**
Balance at end of period	**3,620,103**	**609,586**	**4,229,689**
Accumulated Depreciation and Amortization			
Balance at beginning of period	**2,410,507**	**232,045**	**2,642,552**
Depreciation and amortization	**94,406**	**27,466**	**121,872**
Disposals/others	**(27,066)**	**(4,848)**	**(31,914)**
Balance at end of period	**2,477,847**	**254,663**	**2,732,510**
Net Book Value at End of Period	**₱1,142,256**	**₱354,923**	**₱1,497,179**

	December 31, 2012 (One Year)		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of period	₱3,042,550	₱354,065	₱3,396,615
Additions	269,349	131,910	401,259
Disposals/others	(190,801)	(27,446)	(218,247)
Balance at end of period	3,121,098	458,529	3,579,627
Accumulated Depreciation and Amortization			
Balance at beginning of period	2,330,702	199,900	2,530,602
Depreciation and amortization	237,322	60,853	298,175
Disposals/others	(157,517)	(28,708)	(186,225)
Balance at end of period	2,410,507	232,045	2,642,552
Net Book Value at End of Period	₱710,591	₱226,484	₱937,075

The composition of and movements in land and buildings of the Group which are carried at revalued amount follow:

	March 31, 2013 (Three Months)		
	Land	**Buildings**	**Total**
Revalued amount			
Balance at beginning of period	**₱11,296,469**	**₱6,892,115**	**₱18,188,584**
Additions	**16**	**48,911**	**48,927**
Acquired from business combination (Note 14)	**3,444,747**	**2,515,637**	**5,960,384**
Disposals/others	–	**(15,584)**	**(15,584)**
Balance at end of period	**14,741,232**	**9,441,079**	**24,182,311**

(Forward)

	March 31, 2013 (Three Months)		
	Land	**Buildings**	**Total**
Accumulated Depreciation			
Balance at beginning of period	**₱–**	**₱2,383,948**	**₱2,383,948**
Depreciation	**–**	**89,486**	**89,486**
Disposals/others	**–**	**(2,660)**	**(2,660)**
Balance at end of period	**–**	**2,470,774**	**2,470,774**
Allowance for Impairment Losses (Note 16)	**191,450**	**46,536**	**237,986**
Net Book Value at End of Period	**₱14,549,782**	**₱6,923,769**	**₱21,473,551**

	December 31, 2012 (One Year)		
	Land	Buildings	Total
Revalued amount			
Balance at beginning of period	₱11,295,469	₱6,870,978	₱18,166,447
Additions	1,000	302,068	303,068
Disposals/others	–	(280,931)	(280,931)
Balance at end of period	11,296,469	6,892,115	18,188,584
Accumulated Depreciation			
Balance at beginning of period	–	2,230,309	2,230,309
Depreciation	–	175,642	175,642
Disposals/others	–	(22,003)	(22,003)
Balance at end of period	–	2,383,948	2,383,948
Allowance for Impairment Losses (Note 16)	191,450	46,536	237,986
Net Book Value at End of Period	₱11,105,019	₱4,461,631	₱15,566,650

The revalued amount of land and building was determined by independent appraisers based on highest and best use of property being appraised. 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 and comparability of similar properties sold with the property being valued.

Depreciation on the revaluation increment of the buildings of the Group amounted to ₱17.4 million for the three-month periods ended March 31, 2013 and 2012.

Had the land and buildings been carried at cost, the net book value of the land and buildings of the group would have been ₱10.6 billion and ₱4.7 billion as of March 31, 2013 and December 31, 2012.

Depreciation and amortization consists of:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Property and equipment	**₱211,358**	₱112,640
Investment properties (Note 13)	**72,592**	94,074
Other foreclosed properties	**12,585**	4,509
	₱296,535	₱211,223

As of March 31, 2013 and December 31, 2012, property and equipment of the Group with acquisition costs of ₱749.1 million and ₱736.7 million, respectively, is fully depreciated but is still being used.

12. **Investments in a Subsidiary and an Associate**

The details of this account follow:

	March 31, 2013 (Three Months)	December 31, 2012 (One Year)
Acquisition cost:		
Subsidiary:		
PNB Venture Capital Corporation (61% owned)	**₱5,061**	₱5,061
Associate:		
ACB (39% owned in 2012)	**2,763,903**	2,763,903
	2,768,964	2,768,964
Accumulated equity in net earnings:		
Balance at beginning of period	**136,330**	132,816
Equity in net earnings for the period (Note 26)	**4,975**	10,309
Equity in accumulated translation adjustments	**(21,296)**	–
Equity in net unrealized loss on AFS investments of an associate	**–**	(6,795)
Balance at end of period	**120,009**	136,330
Disposal of previously held interest in an associate due to step-up acquisition of control over investee	**(2,883,912)**	–
	₱5,061	₱2,905,294

With its business combination with ABC (Note 1), the Parent Company's equity interest in ACB increased from 39.41% to 90.41%. This resulted in change in accounting for such investment from an associate to a subsidiary. In accordance with PFRS 3, *Business Combination*, the step-up acquisition of investment in ACB is accounted for as a disposal of the equity investment in ACB and the line by line consolidation of ACB's assets and liabilities in the Group's financial statements. The disposal resulted in a gain of ₱83.9 million, which included recycling to profit or loss of the cumulative translation adjustment of ₱21.3 million arising from the translation of the equity investment to the presentation currency of the Group.

PNB Venture Capital Corporation is 61%-owned by the Parent Company and carried at cost less any impairment in value. This subsidiary is considered insignificant to the Group.

13. **Investment Properties**

The composition of and movements in this account follow:

	March 31, 2013 (Three Months)		
	Land	**Buildings and Improvements**	**Total**
Cost			
Balance at beginning of period	**₱16,017,778**	**₱4,025,748**	**₱20,043,526**
Additions	**139,443**	**65,465**	**204,908**
Acquired from business combination (Note 14)	**4,357,158**	**658,031**	**5,015,189**
Disposals/others	**(435,775)**	**(212,284)**	**(648,059)**
Balance at end of period	**20,078,604**	**4,536,960**	**24,615,564**
Accumulated Depreciation			
Balance at beginning of period	–	**2,112,673**	**2,112,673**
Depreciation (Note 11)	–	**72,592**	**72,592**
Disposals/others	–	**(104,953)**	**(104,953)**
Balance at end of period	–	**2,080,312**	**2,080,312**
Accumulated Impairment Losses (Note 16)			
Balance at beginning of period	**2,842,164**	**610,341**	**3,452,505**
Provision for impairment losses	**29,772**	**307**	**30,079**
Disposals/others	**(431,952)**	**462,170**	**30,218**
Balance at end of period	**2,439,984**	**1,072,818**	**3,512,802**
Net Book Value at End of Period	**₱17,638,620**	**₱1,383,830**	**₱19,022,450**

	December 31, 2012 (One Year)		
	Land	Buildings and Improvements	Total
Cost			
Balance at beginning of period	₱17,319,875	₱5,429,337	₱22,749,212
Additions	608,996	197,270	806,266
Disposals/others	(1,911,093)	(1,600,859)	(3,511,952)
Balance at end of period	16,017,778	4,025,748	20,043,526
Accumulated Depreciation			
Balance at beginning of period	–	2,645,744	2,645,744
Depreciation	–	227,802	227,802
Disposals/others	–	(760,873)	(760,873)
Balance at end of period	–	2,112,673	2,112,673
Accumulated Impairment Losses (Note 16)			
Balance at beginning of period	2,798,435	1,204,920	4,003,355
Provision for (recovery from) impairment losses	(161,725)	11,742	(149,983)
Disposals/others	205,454	(606,321)	(400,867)
Balance at end of period	2,842,164	610,341	3,452,505
Net Book Value at End of Period	₱13,175,614	₱1,302,734	₱14,478,348

Investment properties include real properties foreclosed or acquired in settlement of loans. The fair value of the investment properties of the Group as of March 31, 2013 and December 31, 2012 as determined by independent and/or in-house appraisers amounted to ₱27.6 billion and ₱21.9 billion, respectively. 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 and comparability of similar properties sold with the property being valued.

Foreclosed investment properties of the Group still subject to redemption period by the borrowers amounted to ₱345.1 million and ₱437.2 million as of March 31, 2013 and December 31, 2012, respectively.

Direct operating expenses on investment properties that generated rental income during the period (other than depreciation and amortization), included under 'Miscellaneous expenses - Foreclosure and other Real and Other Properties Acquired (ROPA) - related expenses' in Note 26, amounted to ₱7.4 million and ₱11.8 million for the three-month periods ended March 31, 2013 and 2012, 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 26, amounted to ₱56.3 million and ₱37.4 million for the three-month periods ended March 31, 2013 and 2012, respectively.

14. Business Combinations

As discussed in Note 1, on February 9, 2013, the Parent Company acquired 100.00% of voting common stocks of ABC, a listed universal bank. The acquisition of ABC was made to strengthen the Parent Company's financial position and enlarge its operations.

The Parent Company accounted for the business combination with ABC under the acquisition method of PFRS 3. The Group has elected to measure the non-controlling interest in the acquiree at proportionate share of identifiable assets and liabilities.

Assets acquired and liabilities assumed
In accordance with PFRS 3, the Parent Company determined the assets acquired and liabilities assumed from the business combination and provisionally made an assessment of their fair values. The fair values of the identifiable assets and liabilities of ABC and its subsidiaries as at the date of acquistion follow:

	Fair value of the net assets recognized on acquistion date
Assets	
Cash and other cash items	₱3,138,220
Due from Bangko Sentral ng Pilipinas	44,481,495
Due from other banks	12,514,443
Interbank loans receivable	4,310,711
Financial assets at fair value through profit or loss	6,502,108
Available-for-sale investments	18,693,504
Loans and receivables	92,168,568
Property and equipment (Note 11)	6,546,998
Investment properties (Note 13)	5,015,189
Deferred tax assets	52,574
Other assets (Note 15)	1,875,509
Total assets	₱195,299,319

(Forward)

	Fair value of the net assets recognized on acquistion date
Liabilities	
Deposit liabilities	
Demand	₱52,098,658
Savings	61,989,407
Time	27,101,791
	141,189,856
Financial liabilities at fair value through profit or loss	3,877,768
Bills and acceptances payable	3,480,045
Accrued taxes, interest and other expenses	1,653,681
Subordinated debt	4,498,919
Income tax payable	25,975
Deferred tax liabilities	916,006
Other liabilities	8,336,261
Total liabilities	163,978,511
Fair values of identifiable assets and liabilities assumed	₱31,320,808

The total gross contractual amounts of receivables acquired as of February 9, 2013 was ₱97.4 billion, while the corresponding allowance for probable losses and unearned interest discount amounted to ₱5.1 billion and ₱0.1 billion, respectively. Deferred tax liability on fair value adjustments amounted to ₱711.9 million was offset on a per entity basis against the deferred tax asset carried by PNB.

The proportionate share and measurement of the non-controlling interests and previously held interest in PNB LII, ACB, ALFC, ABCHK and OHBVI have been determined using the fair values of the respective net assets of these subsidiaries.

The business combination resulted in recognition of goodwill which is provisionally determined as follows:

Purchase consideration transferred	₱41,505,929
Add: Proportionate share of the non-controlling interest in the net assets of ABC	2,762,937
Acquisition-date fair value of previously held interest in subsidiaries	3,069,442
Less: Fair values of identifiable assets and liabilities assumed	31,320,808
Goodwill	₱16,017,500

The goodwill amounting to ₱16.0 billion is provisional pending receipt of the final valuation of the identifiable intangible assets. The goodwill arising from acquisition consists largely of the synergies and economies of scale expected from combining the operations of PNB and ABC. Goodwill is allocated entirely to the banking and insurance segments. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquistion, ABC and its subsidiaries have contributed ₱1.0 billion to the Group's revenue and ₱20.6 million loss to the Group's income before income tax. If the combination had taken place at the beginning of the year, contribution to the Group revenue and the income before income tax would have been ₱2.6 billion and ₱0.6 billion, respectively.

An analysis of cash flows arising from the business combination follows:

Net cash acquired arising from the business combination (under investing activities)	₱64,444,869
Less transaction costs attributable to issuance of shares (under financing activities)	84,792
Net cash in flow from the business combination	₱64,360,077

The fair value of the 423,962,500 common shares issued as consideration for the net assets of ABC and its subsidiaries was determined on the basis of the closing market price of PNB common shares as of February 9, 2013.

On April 26, 2013, the Group filed a request for a ruling from the Bureau of Internal Revenue (BIR) seeking confirmation that the statutory merger of PNB and ABC is a tax-free merger under Section 40(C)(2) of the National Internal Revenue Code of 1997 as amended (Tax Code). As of March 31, 2013, the ruling request is still pending with the Law Division of the BIR. The Group believes that the BIR will issue such confirmation on the basis of BIR Preliminary Ruling No. 01-2008 (dated September 28, 2008) whereby the BIR held that the statutory merger of PNB and ABC complies with Revenue Memorandum Ruling (RMR) No. 1-2001, subject to the submission of the merger documents and documents pertaining to the assets and liabilities transferred. RMR No. 1-2001 provides the fact pattern that should be present in order to secure BIR confirmation for a tax-free Section 40(C)(2) transaction.

15. **Other Assets**

This account consists of:

	March 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
Investment in Heritage Park (Note 14)	**₱1,120,601**	₱–	₱–
Real estate inventories	**1,014,678**	1,014,678	2,419,610
Software costs	**412,342**	376,055	409,390
Creditable withholding taxes	**247,856**	–	–
Deferred reinsurance premiums	**215,992**	211,151	230,685
Prepaid expenses	**183,822**	85,629	116,981
Chattel properties - net	**115,609**	116,159	69,339
Documentary stamps on hand	**111,719**	28,284	78,908
Deferred charges	**95,684**	81,400	82,039
Stationeries and supplies	**73,114**	34,547	35,479
Returned checks and other cash items	**62,656**	158,002	106,706
Security deposits	**57,498**	–	–
Sundry debits	**36,235**	–	86,445

(Forward)

	March 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
Other investments	**₱25,134**	₱17,382	₱15,086
Miscellaneous COCI	**8,330**	808	5,220
Retirement benefit asset	**7,435**	–	–
Revolving fund and petty cash fund	**834**	845	771
Shortages	**404**	45	423
Postage stamps on hand	**303**	110	128
Miscellaneous	**307,792**	151,858	271,187
	4,098,038	2,276,953	3,928,397
Less allowance for impairment losses (Note 16)	**97,706**	98,316	546,228
	₱4,000,332	₱2,178,637	₱3,382,169

Investment in Heritage Park
Investment in Heritage Park which formed part of net the assets acquired from ABC represents the Group's portfolio holdings in Heritage Park investment certificates.

Real Estate Inventories
This comprise of land contributed to the Joint Venture Agreement (JVA) of the Parent Company with Eton Properties Philippines, Inc. (EPPI) which are carried at cost. Refer to Note 32 for the terms of the JVA.

Software Costs
Movements in software costs are as follows:

	March 31, 2013 (Three Months)	December 31, 2012 (One Year)
Balance at beginning of period	**₱376,055**	₱409,390
Additions	**79,233**	120,215
Amortization (Note 26)	**(42,946)**	(153,550)
Balance at end of period	**₱412,342**	₱376,055

Chattel Mortgage
As of March 31, 2013 and December 31, 2012, accumulated depreciation on chattel mortgage properties acquired by the Group and the Parent Company in settlement of loans amounted to ₱58.8 million and ₱56.6 million, respectively.

Miscellaneous
Miscellaneous assets of the Group include postages, security fund 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 March 31, 2013 and December 31, 2012, the latest transacted price of the exchange trading right (as provided by the PSE) amounted to ₱8.5 million.

As of March 31, 2013, miscellaneous assets of the Group include a security fund amounting to ₱0.2 million which is maintained by PNB LII in compliance with Sections 365 and 367 of the Insurance Code. The amount of such fund is determined by and deposited with the IC for the payment of benefit claims against insolvent companies.

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

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

	March 31, 2013 (Three Months)	December 31, 2012 (As restated - Note 2) (One Year)	January 1, 2012 (As restated - Note 2) (One Year)
Balance at beginning of period:			
Property and equipment (Note 11)	**₱237,986**	₱237,624	₱209,142
Investment properties (Note 13)	**3,452,505**	4,003,355	5,334,805
Other assets (Note 15)	**98,316**	546,228	591,426
	3,788,807	4,787,207	6,135,373
Provisions (reversals) during the period	**30,209**	(451,791)	(264,911)
Disposals, transfers and others	**29,478**	(546,609)	(1,083,255)
Balance at end of period:			
Property and equipment (Note 11)	**237,986**	237,986	237,624
Investment properties (Note 13)	**3,512,802**	3,452,505	4,003,355
Other assets (Note 15)	**97,706**	98,316	546,228
	₱3,848,494	₱3,788,807	₱4,787,207

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

	March 31, 2013 (Three Months)	December 31, 2012 (As restated - Note 2) (One Year)	January 1, 2012 (As restated - Note 2) (One Year)
Balance at beginning of period:			
Loans and receivables	**₱14,243,783**	₱13,541,340	₱13,046,309
AFS investments	**928,408**	927,488	697,052
Receivable from SPV	**258,848**	833,848	736,624
	15,431,039	15,302,676	14,479,985
Provisions during the period	**149,839**	551,233	1,125,306
Accretion, accounts charged off, transfers and others	**(455,078)**	(422,870)	(302,615)
Balance at end of period:			
Loans and receivables (Note 9)	**14,143,544**	14,243,783	13,541,340
AFS investments (Note 8)	**928,408**	928,408	927,488
Receivable from SPV	**53,848**	258,848	833,848
	₱15,125,800	₱15,431,039	₱15,302,676

Provision for impairment and credit losses consists of:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Provision for (reversal of) impairment	**₱30,209**	(₱31,767)
Provision for credit losses	**149,839**	390,744
	₱180,048	₱358,977

Below is the breakdown of provision for credit losses by type of loans and receivable.

	Three Months Ended					
	March 31, 2013			March 31, 2012		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Receivable from customers	**₱92,917**	**₱38,305**	**₱131,222**	₱199,342	₱–	₱199,342
Unquoted debt securities	**–**	**–**	**–**	(2,723)	–	(2,723)
Other receivables	**16,168**	**2,449**	**18,617**	194,125	–	194,125
	₱109,085	**₱40,754**	**₱149,839**	₱390,744	₱–	₱390,744

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

	March 31, 2013 (Three Months)							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Balance at beginning of period	**₱4,631,725**	**₱70,731**	**₱129,653**	**₱561,132**	**₱14,748**	**₱3,958,931**	**₱4,876,863**	**₱14,243,783**
Provisions (reversals) during the period	**271,007**	**1,969**	**(21,218)**	**(121,838)**	**1,302**	**–**	**18,617**	**149,839**
Accretion on impaired loans (Note 9)	**(56,810)**	**(43)**	**(3,927)**	**(3,879)**	**(158)**	**–**	**–**	**(64,817)**
Accounts charged off, transfers and others	**(223,317)**	**–**	**–**	**(948)**	**–**	**(275)**	**39,279**	**(185,261)**
Balance at end of period	**₱4,622,605**	**₱72,657**	**₱104,508**	**₱434,467**	**₱15,892**	**₱3,958,656**	**₱4,934,759**	**₱14,143,544**

	December 31, 2012 (One Year)							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Balance at beginning of period	₱4,653,994	₱89,648	₱74,998	₱586,329	₱14,858	₱3,772,632	₱4,348,881	₱13,541,340
Provisions (reversals) during the period	424,835	(18,748)	78,800	31,413	948	186,299	(153,234)	550,313
Accretion on impaired loans (Note 9)	(261,780)	(169)	(24,145)	(15,731)	(953)	–	–	(302,778)
Accounts charged off, transfers and others	(185,324)	–	–	(40,879)	(105)	–	681,216	454,908
Balance at end of period	₱4,631,725	₱70,731	₱129,653	₱561,132	₱14,748	₱3,958,931	₱4,876,863	₱14,243,783

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

	March 31, 2013 (Three Months)		December 31, 2012 (As restated) (One Year)		January 1, 2012 (As restated) (One Year)	
	AFS Investments-Equity Securities	**Receivable from SPV**	AFS Investments-Equity Securities	Receivable from SPV	AFS Investments-Equity Securities	Receivable from SPV
Balance at beginning of period	**₱928,408**	**₱258,848**	₱927,488	₱833,848	₱697,052	₱736,624
Provisions during the period	**–**	**–**	920	–	249,869	97,224
Disposals, transfers and others	**–**	**(205,000)**	–	(575,000)	(19,433)	–
Balance at end of period	**₱928,408**	**₱53,848**	₱928,408	₱258,848	₱927,488	₱833,848

17. **Deposit Liabilities**

Of the total deposit liabilities of the Group, ₱18.6 billion and ₱12.9 billion are noninterest-bearing as of March 31, 2013 and December 31, 2012, respectively. Remaining deposit liabilities generally earned annual fixed interest rates ranging from 0.09% to 2.41% in 2013 and from 0.09% to 2.55% in 2012 for foreign currency-denominated deposit liabilities, and from 0.24% to 6.08% in 2013 and from 0.25% to 4.32% in 2012 for peso-denominated deposit liabilities.

On March 29, 2012, BSP Circular No. 753 was issued providing unification of the statutory and liquidity reserve requirement, non-remuneration of the unified reserve requirement, exclusion of cash in vault and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company and ASB are subject to reserves equivalent to 18.00% and 6.00%, respectively. Available reserves follow:

	March 31, 2013	December 31, 2012
Due from BSP	**₱81,851,218**	₱36,531,047
AFS investments	**5,397,494**	6,965,950
Unquoted debt securities	**2,775,022**	3,092,529
	₱90,023,734	₱46,589,526

As of March 31, 2013 and December 31, 2012, the Parent Company and ASB were in compliance with such regulations.

Time deposit of the Group includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs):

5.18% ₱3.1 Billion LTNCD
On November 18, 2011, the Parent Company issued ₱3.1 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 100.00% 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 February 17, 2012.

c. The Parent Company may redeem the LTNCDs in whole but not in part at a redemption price equal to 100.00% 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 Parent Company. 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 Parent Company, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

e. Each Holder, by accepting the 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% ₱3.3 Billion LTNCD</u>
On March 25, 2009, the Parent Company issued ₱3.3 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 100.00% 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 100.00% 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 Parent Company. 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.

<u>7.00% ₱3.5 Billion LTNCD</u>
The ₱3.5 billion worth of LTNCD arising from the business combination was issued on October 22, 2009 with an interest rate of 7.00% per annum which shall be payable quarterly, commencing on January 23, 2010. The LTNCD is insured with PDIC and will mature on October 23, 2014.

Interest expense on deposit liabilities consists of:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Savings	**₱828,458**	₱649,674
LTNCDs	**129,918**	94,848
Time	**66,056**	24,416
Demand	**34,536**	24,198
	₱1,058,968	₱793,136

For the three-month periods ended March 31, 2013 and 2012, interest expense on LTNCDs include amortization of transaction costs amounting to ₱3.4 million and ₱2.3 million, respectively.

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

This account consists of :

	March 31, 2013	December 31, 2012
Designated at FVPL		
Subordinated notes	**₱6,096,509**	₱6,196,070
Segregated fund liabilities	**4,167,818**	–
Derivative liabilities (Notes 23 and 35)	**39,996**	283,751
	₱10,304,323	₱6,479,821

Financial liability designated at FVPL includes the ₱6.0 billion subordinated notes due in 2008 (2008 Notes) which the Parent Company issued on June 19, 2008 and segregated fund liabilities. The subordinated note and segregated fund liabilities are part of a group of financial instruments that together are managed on a fair value basis, in accordance with the Group'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;

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 2.01% per annum or (ii) the difference of interest rate and five-year PDST-F FXTN as of issue date multiplied by 150.00% 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;

(b) 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;

(c) 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

(d) 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 March 31, 2013 and December 31, 2012, change in the fair value of the designated subordinated debt at FVPL that is attributable to changes in credit risk is not significant.

The balance of segregated fund liabilities consists of:

	March 31, 2013
Segregated funds (Note 7)	**₱4,091,354**
Subscriptions outside segregated funds	**76,465**
Segregated fund liabilities	**₱4,167,819**

19. **Bills and Acceptances Payable**

This account consists of:

	March 31, 2013	December 31, 2012
Bills payable to:		
BSP and local banks	**₱4,938,623**	₱6,998,633
Foreign banks	**4,055,019**	2,870,946
GOCC and other private entities	**5,762,079**	3,173,463
	14,755,721	13,043,042
Acceptances outstanding	**365,676**	33,859
	₱15,121,397	₱13,076,901

As of March 31, 2013, the annual interest rates range from 0.15% to 1.77% for foreign currency-denominated borrowings, and from 1.27% to 16.00% for peso-denominated borrowings of the Group.

As of December 31, 2012, the annual interest rates range from 0.06% to 1.77% for foreign currency-denominated borrowings, and from 0.03% to 12.00% for peso-denominated borrowings of the Group.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.6 billion as of March 31, 2013 and December 31, 2012 (see Note 9).

Bills payable - GOCC includes funding from the Social Security System under which the Parent Company acts as a conduit for certain financing programs of these institutions. Lending to such programs is shown under 'Loans and receivables' (see Note 9).

As of March 31, 2013 and December 31, 2012, bills payable with a carrying value of ₱4.9 billion and ₱3.0 billion is secured by a pledge of certain AFS investments with face value of ₱5.3 billion and ₱2.8 billion, respectively. Refer to Note 8 for further details.

As of March 31, 2013, bills payable under the BSP rediscounting facility with a carrying value of ₱0.7 billion and ₱559.3 million is secured by a pledge of loans amounting to ₱0.7 billion and certain AFS investments with face value of ₱2.4 billion, respectively (Note 35). As of December 31, 2012, bills payable under the BSP rediscounting facility with a carrying value of ₱1.9 billion and ₱1.0 billion is secured by a pledge of loans amounting to ₱2.0 billion and certain

AFS investments with face value of ₱2.6 billion, respectively (Note 35). Refer to Notes 8 and 9 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:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Subordinated debt* (Note 21)	**₱318,210**	₱237,530
Bills payable	**53,036**	49,404
Others	**46,541**	720
	₱417,787	₱287,654

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

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	March 31, 2013	December 31, 2012
Interest	**₱2,212,562**	₱1,987,231
Other benefits - monetary value of leave credits	**978,467**	508,719
Employee benefits	**635,107**	365,480
Other taxes and licenses	**259,784**	170,798
PDIC insurance premiums	**226,980**	264,294
Management, directors and other professional fees	**178,664**	52,583
Information technology-related expenses	**148,207**	175,901
Rent expenses	**52,162**	38,206
Promotional expense	**44,325**	25,754
Other expenses	**576,995**	325,324
	₱5,313,253	₱3,914,290

'Other expenses' includes janitorial, security, repairs and maintenance, representation and entertainment, communication and other operating expenses.

21. **Subordinated Debt**

5.88% ₱3.5 Billion Subordinated Notes
On May 9, 2012 , the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital.

The 2012 Notes which bear nominal interest of 5.88% and due in 2022 was issued pursuant to the authority granted by the BSP to the Bank on May 27, 2011. EIR on this note is 6.04%.

Among the significant terms and conditions of the issuance of such 2012 Notes are:

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

(b) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 09, 2012 to but excluding May 09, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and June of each year, commencing on August 09, 2012. Unless previously redeemed, the 2012 Notes will be redeemed at their principal amount on maturity date or May 09, 2022.

(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 2012 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 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 2012 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2012 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 2012 Notes.

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 2011 Notes which bear nominal interest of 6.75% and 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 September 15, 2011. Unless previously redeemed, the 2011 Notes will be redeemed at their principal amount on maturity date or June 15, 2021;

(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 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.

7.13% ₱4.5 Billion Subordinated Notes

On July 25, 2007, the BOD of the Parent Company approved and authorized the management to conduct capital raising activity by way of issuance of Lower Tier 2 capital up to the maximum amount of ₱5.0 billion through a public offering subject to the provisions of BSP Circular No. 280 and BSP Memorandum to all banks and financial institutions dated February 17, 2003.

The issuance of the foregoing subordinated debt was approved by the Monetary Board (MB) in its Resolution No. 98 dated January 24, 2008.

Relative to this, on March 6, 2008, the Parent Company issued ₱4.5 billion, 7.13% Subordinated Notes due on 2018, callable with step-up in 2013. Among the significant terms and conditions of the issuance of the subordinated notes are:

a) Issue price is at 100.00% of the Principal amount.

   The Subordinated Notes bear interest at 7.13% per annum, payable to the noteholder for the period from and including the issue date up to the maturity date if the call option is not exercised on the call option date. Interest shall be payable quarterly in arrears on March 6, June 6, September 6 and December 6 of each year, commencing June 6, 2008. The Subordinated Notes will mature on March 6, 2018, if not redeemed earlier.

b) The Subordinated Notes will constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company. The Subordinated Notes will, at all times, rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Parent Company, including holders of preferences shares.

c) The Parent Company may redeem the notes in whole, but not in part, at a redemption price equal to 100.00% of the principal amount of the Notes together with accrued and unpaid interest at first banking day after the 20th interest period from issue date subject to at least 30-day prior written notice to noteholders and prior approval of the BSP, subject to the following conditions: (i) the capital adequacy ratio of the Parent Company is at least equal to the required minimum ratio; and (ii) the Subordinated Note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the Subordinated Notes.

d) The Subordinated Note shall not be redeemable or terminable at the instance of any noteholder before maturity date.

On March 6, 2013, the 2018 Notes were redeemed by the Parent Company at par/face value.

As of March 31, 2013 and December 31, 2012, subordinated debt is net of unamortized transaction cost of ₱57.6 million and ₱61.2 million, respectively.

For the three-month periods ended March 31, 2013 and 2012, amortization of transaction costs amounting to ₱4.7 million and ₱2.3 million, respectively, were charged to 'Interest expense - bills payable and other borrowings' in the statements of income.

22. **Other Liabilities**

This account consists of:

	March 31, 2013	December 31, 2012 (As restated- note 2)	January 1, 2012 (As restated- note 2)
Insurance contract liabilities	**₱6,718,640**	₱2,623,901	₱1,612,946
Accounts payable	**6,562,939**	4,693,074	3,659,636
Retirement benefit liability (Note 27)	**3,843,554**	1,854,458	2,095,205
Bills purchased - contra (Note 8)	**3,464,344**	2,553,891	2,296,039
Provisions (Note 33)	**1,971,242**	1,575,433	874,950
Manager's checks and demand drafts outstanding	**1,075,964**	623,621	475,041
Reserve for unearned premiums	**544,951**	509,488	458,178
Deposits on lease contracts	**544,609**	487,770	429,487
Accounts payable - electronic money	**361,844**	379,981	396,162
Payment order payable	**329,992**	174,406	152,810
Margin deposits and cash letters of credit	**317,523**	31,358	212,390
Due to Treasurer of the Philippines	**315,097**	290,649	220,053
Due to other banks	**272,306**	142,212	98,671
Deferred credits	**271,686**	181,473	207,484
Other dormant credits	**251,762**	252,218	275,030
Withholding tax payable	**145,395**	127,123	137,215
Due to BSP	**142,401**	102,616	102,965
Deferred tax liabilities (Note 29)	**140,915**	3,873	20,873
Sundry credits	**69,639**	26,535	180
Advanced rentals on building, bank premises and equipment	**49,694**	1,652	1,503
SSS, Philhealth, Employer's Compensation Premiums and Pag-IBIG Contributions Payable	**26,045**	15,742	15,129
Deposit for keys on safety deposit boxes	**13,642**	4,941	4,917
Overages	**1,552**	458	769
Miscellaneous	**1,014,502**	628,378	920,606
	₱28,450,238	₱17,285,251	₱14,668,239

Miscellaneous liabilities of the Group include contribution and payments for compensation premiums and remittance - related payable.

23. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Group, 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 March 31, 2013 and December 31, 2012 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	March 31, 2013			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***
Freestanding derivatives:				
Currency forwards				
BUY				
USD	**₱60,743**	**₱21,924**	**40.91**	**374,729**
EUR	**66**	**1,549**	**53.56**	**1,172**
CAD	**129**	–	**40.10**	**407**
GBP	**45**	–	**61.81**	**100**
SELL				
USD	**45,152**	**13,624**	**40.85**	**521,086**
EUR	**1,614**	**154**	**53.38**	**2,402**
SGD	–	**139**	**32.61**	**500,450**
AUD	–	**193**	**39.20**	**2,060**
JPY	–	**1,528**	**0.43**	**500,000**
CHF	**19**	**39**	**43.04**	**500**
GBP	**458**	**648**	**59.13**	**3,753**
CAD	–	**72**	**39.78**	**200**
HKD	**1,474**	–	**5.26**	**15,522**
CAD	–	**126**	**40.11**	**407**
Cross currency swaps	**219,944**	–		**86,000**
Interest rate swaps (Php)	**35,106**	–		**2,329,000**
Warrants	**89,286**	–		**306**
Embedded derivatives:				
Credit default swaps (USD)	**917**	–		**47,500**
	₱454,953	**₱39,996**		

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

	December 31, 2012			
	Assets	Liabilities	Average Forward Rate	Notional Amount*
Freestanding derivatives:				
Currency forwards				
BUY				
JPY	₱–	₱3,706	0.49	300,000
USD	20	185,391	42.01	165,043
EUR	–	2	54.48	63
SGD	74	–	33.65	1,958
SELL				
USD	25,214	10,400	41.11	285,064
EUR	–	43	54.18	800
SGD	–	73	33.65	1,958

(Forward)

	December 31, 2012			
	Assets	Liabilities	Average Forward Rate	Notional Amount*
AUD	₱430	₱–	43.15	700
JPY	983	573	0.48	540,000
CHF	10	24	45.05	1,050
GBP	133	23	66.11	1,790
CAD	208	–	41.39	510
HKD	–	2	5.30	200
SEK	–	4	6.32	300
Cross currency swaps	201,970	–		86,000
Interest rate swaps (Php)	162,556	83,510		6,109,000
Warrants	59,044	–		262
Embedded derivatives:				
Credit default swaps (USD)	3,859	–		47,500
	₱454,501	₱283,751		

*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 Parent Company renewed some of these agreements with various counterparty banks in May and June of 2011 with terms to maturities of two years. The aggregate notional amount of these cross currency swaps is USD79.0 million or ₱3.4 billion while its positive fair value amounted to ₱206.4 million and ₱190.3 million as of March 31, 2013 and December 31, 2012, respectively.

On June 21, 2011, the Parent Company entered into a cross currency swap agreement with a notional amount of USD7.0 million or ₱299.0 million and will mature on June 17, 2013. Proceeds of the 2011 Notes were swapped for USD. As of March 31, 2013 and December 31, 2012, its positive fair value amounted to ₱13.5 million and ₱11.7 million, respectively. In order to fulfill collateral requirements, the Parent Company has pledged its cash amounting to nil and USD2.0 million or ₱82.1 million as of March 31, 2013 and December 31, 2012 (Note 35).

As of March 31, 2013 and December 31, 2012, the Parent Company holds 306,405 and 261,515 shares of ROP Warrants Series B1 which are carried at fair values of USD2.2 million or ₱89.3 million and USD1.4 million or ₱59.0 million, respectively.

Embedded derivatives that have been bifurcated are credit derivatives in structured notes presented under other debt securities under AFS investments with a notional reference of USD47.5 million and with positive fair value of ₱0.9 million and ₱3.9 million as of March 31, 2013 and December 31, 2012, respectively.

The table below shows the rollforward analysis of net derivatives assets (liabilities) for the three-month period ended March 31, 2013 and for the year ended December 31, 2012 (in millions):

	March 31, 2013 (Three Months)	December 31, 2012 (One Year)
Balance at beginning of period	**₱171**	₱283
Changes in fair value (Note 8)	**192**	82
Availments/(settlements)	**52**	(194)
	₱415	₱171

The changes in fair value of the derivatives are included in 'Trading and investments securities gains - net' in the statements of income.

24. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities of the Group analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	March 31, 2013		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱7,918,010	₱–	₱7,918,010
Due from BSP	83,305,615	–	83,305,615
Due from other banks	14,833,236	183,555	15,016,791
Interbank loans receivable	8,275,969	–	8,275,969
Securities held under agreements to resell	20,000,000	–	20,000,000
Financial assets at FVPL	9,789,422	–	9,789,422
AFS investments - gross (Note 8)	8,536,632	94,019,402	102,556,034
Receivable from customers - gross (Note 9)	86,267,879	136,767,311	223,035,190
Unquoted debt securities classified as loans (Note 9)	2,819,980	8,788,103	11,608,083
Other receivables - gross (Note 9)	19,041,155	882,992	19,924,147
Miscellaneous COCI (Note 15)	8,330	–	8,330
	260,796,228	240,641,363	501,437,591
Nonfinancial Assets			
Property and equipment - net			
At cost	–	1,497,179	1,497,179
At revalued amount	–	21,473,551	21,473,551
Investments in a subsidiary and an associate - net	–	5,061	5,061
Investment properties - net	–	19,022,450	19,022,450
Deferred tax assets	–	1,089,464	1,089,464
Goodwill (Note 14)	–	16,017,500	16,017,500
Residual value of leased assets	133,670	264,388	398,058
Other receivables - gross (Note 9)	1,656,884	–	1,656,884
Other assets - gross (Note 15)*	1,833,825	2,255,883	4,089,708
	3,624,379	61,625,476	65,249,855
Less: Allowance for impairment and credit losses (Note 16)	–	–	15,169,658
Unearned and other deferred income (Note 9)	–	–	1,117,894
			16,287,552
	₱264,420,607	₱302,266,839	₱550,399,894

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes withholding taxes payable

	March 31, 2013		
	Less than Twelve Months	Over Twelve Months	Total
Financial Liabilities			
Deposit liabilities	₱373,663,925	₱20,947,941	₱394,611,866
Financial liabilities at FVPL	10,304,323	–	10,304,323
Bills and acceptances payable	13,714,226	1,407,171	15,121,397
Subordinated debt	–	9,942,407	9,942,407
Accrued interest payable (Note 20)	2,212,116	446	2,212,562
Other liabilities (Note 22):			
Insurance contract liabilities	2,511,195	4,207,445	6,718,640
Accounts payable	5,958,292	604,647	6,562,939
Bills purchased - contra	3,464,344	–	3,464,344

(Forward)

	March 31, 2013		
	Less than Twelve Months	**Over Twelve Months**	**Total**
Managers' checks and demand drafts outstanding	**₱1,075,964**	**₱–**	**₱1,075,964**
Deposit on lease contracts	**20,612**	**523,997**	**544,609**
Payment order payable	**329,992**	**–**	**329,992**
Margin deposits and cash letters of credit	**317,523**	**–**	**317,523**
Due to TOP	**2,268**	**312,829**	**315,097**
Due to other banks	**272,306**	**–**	**272,306**
Due to BSP	**142,401**	**–**	**142,401**
Other liabilities	**603,154**	**228,343**	**831,497**
	414,592,641	**38,175,226**	**452,767,867**
Nonfinancial Liabilities			
Accrued taxes and other expenses	**2,357,103**	**743,588**	**3,100,691**
Income tax payable	**166,682**	**–**	**166,682**
Other liabilities**	**897,010**	**6,977,916**	**7,874,926**
	3,420,795	**7,721,504**	**11,142,299**
	₱418,013,436	**₱45,896,730**	**₱463,910,166**

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes withholding taxes payable

	December 31, 2012 (As restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,599,088	₱–	₱5,599,088
Due from BSP	37,175,399	–	37,175,399
Due from other banks	4,042,769	–	4,042,769
Interbank loans receivable	11,498,756	–	11,498,756
Securities held under agreements to resell	18,300,000	–	18,300,000
Financial assets at FVPL	4,023,065	–	4,023,065
AFS investments - gross (Note 8)	4,449,652	63,476,235	67,925,887
Receivable from customers - gross (Note 9)	45,314,788	87,465,430	132,780,218
Unquoted debt securities classified as loans (Note 9)	3,997,264	3,820,935	7,818,199
Other receivables - gross (Note 9)	17,445,962	–	17,445,962
Miscellaneous COCI (Note 15)	808	–	808
	151,847,551	154,762,600	306,610,151
Nonfinancial Assets			
Property and equipment - net			
At cost	–	937,075	937,075
At revalued amount	–	15,566,650	15,566,650
Investments in a subsidiary and an associate - net	–	2,905,294	2,905,294
Investment properties - net	–	14,478,348	14,478,348
Deferred tax assets	–	1,780,682	1,780,682
Residual value of leased asset	–	329,243	329,243
Other receivables - gross (Note 9)	1,488,287	–	1,488,287
Other assets - gross (Note 15)*	694,836	1,581,309	2,276,145
	2,183,123	37,578,601	39,761,724
Less: Allowance for impairment and credit losses (Note 16)	–	–	15,270,507
Unearned and other deferred income (Note 9)	–	–	910,617
	–	–	16,181,124
	₱154,030,674	₱192,341,201	₱330,190,751

	December 31, 2012 (As restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Liabilities			
Deposit liabilities	₱223,150,780	₱17,703,597	₱240,854,377
Financial liabilities at FVPL	6,479,821	–	6,479,821
Bills and acceptances payable	12,768,365	308,536	13,076,901
Subordinated debt	–	9,938,816	9,938,816
Accrued interest payable (Note 20)	1,987,231	–	1,987,231
Other liabilities (Note 22):			
Accounts payable	4,693,074	–	4,693,074
Insurance contract liabilities	2,623,901	–	2,623,901
Bills purchased - contra	2,553,891	–	2,553,891
Managers' checks and demand drafts outstanding	623,621	–	623,621
Deposit on lease contracts	180,700	307,070	487,770
Due to TOP	–	290,649	290,649
Payment order payable	174,406	–	174,406
Due to other banks	142,212	–	142,212
Margin deposits and cash letters of credit	31,358	–	31,358
Due to BSP	102,616	–	102,616
Other liabilities	384,924	983,499	1,368,423
	255,896,900	29,532,167	285,429,067
Nonfinancial Liabilities			
Accrued taxes and other expenses	557,914	1,369,145	1,927,059
Income tax payable	149,050	–	149,050
Other liabilities**	1,389,294	2,804,036	4,193,330
	2,096,258	4,173,181	6,269,439
	₱257,993,158	₱33,705,348	₱291,698,506

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes withholding taxes payable

	January 1, 2012 (As restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,404,110	₱–	₱5,404,110
Due from BSP	38,152,795	–	38,152,795
Due from other banks	6,423,981	–	6,423,981
Interbank loans receivable	17,097,648	–	17,097,648
Securities held under agreements to resell	18,300,000	–	18,300,000
Financial assets at FVPL	2,824,994	4,050,671	6,875,665
AFS investments - gross (Note 8)	1,727,769	51,523,527	53,251,296
Receivable from customers - gross (Note 9)	40,972,474	74,305,845	115,278,319
Unquoted debt securities classified as loans (Note 9)	4,362,294	3,998,835	8,361,129
Other receivables - gross (Note 9)	15,470,587	–	15,470,587
Miscellaneous COCI (Note 15)	5,220	–	5,220
	150,741,872	133,878,878	284,620,750
Nonfinancial Assets			
Property and equipment - net			
At cost	–	866,013	866,013
At revalued amount	–	15,698,514	15,698,514
Investments in a subsidiary and an associate - net	–	2,901,780	2,901,780
Investment properties - net	–	16,100,113	16,100,113
Deferred tax assets	–	1,775,789	1,775,789
Residual value of leased asset	–	271,489	271,489
Other receivables - gross (Note 9)	1,318,531	–	1,318,531
Other assets - gross (Note 15)*	978,134	2,945,043	3,923,177
	2,296,665	40,558,741	42,855,406

(Forward)

	January 1, 2012 (As restated)		
	Less than Twelve Months	Over Twelve Months	Total
Less: Allowance for impairment and credit losses (Note 16)	₱–	₱–	₱15,015,056
Unearned and other deferred income (Note 9)	–	–	909,680
	–	–	15,924,736
	₱153,038,537	₱174,437,619	₱311,551,420

	January 1, 2012 (As restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Liabilities			
Deposit liabilities	₱219,183,534	₱18,350,404	₱237,533,938
Financial liabilities at FVPL	171,013	6,479,170	6,650,183
Bills and acceptances payable	7,129,369	1,329,056	8,458,425
Subordinated debt	–	6,452,473	6,452,473
Accrued interest payable (Note 20)	450,070	1,555,417	2,005,487
Other liabilities (Note 22):			
Accounts payable	3,659,636	–	3,659,636
Bills purchased - contra	2,296,039	–	2,296,039
Insurance contract liabilities	1,612,946	–	1,612,946
Managers' checks and demand drafts outstanding	475,041	–	475,041
Deposit on lease contracts	308,088	121,399	429,487
Due to TOP	–	220,053	220,053
Margin deposits and cash letters of credit	212,390	–	212,390
Payment order payable	152,810	–	152,810
Due to BSP	102,965	–	102,965
Due to other banks	98,671	–	98,671
Other liabilities	4,916	–	4,916
	235,857,488	34,507,972	270,365,460
Nonfinancial Liabilities			
Accrued taxes and other expenses	326,092	1,407,471	1,733,563
Income tax payable	242,169	–	242,169
Other liabilities**	1,869,277	3,534,006	5,403,283
	2,437,538	4,941,477	7,379,015
	₱238,295,026	₱39,449,449	₱277,744,475

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes withholding taxes payable

25. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares		Amount	
	March 31, 2013 (Three Months)	December 31, 2012 (One Year)	**March 31, 2013 (Three Months)**	December 31, 2012 (One Year)
Preferred - ₱40 par value				
Authorized	–	195,175,444		
Common - ₱40 par value				
Authorized	**1,250,000,001**	1,054,824,557		
Issued and Outstanding				
Balance at the beginning of the period	**662,245,916**	662,245,916	**₱26,489,837**	₱26,489,837
Issued during the period	**423,962,500**	–	**16,958,500**	–
	1,086,208,416	662,245,916	**43,448,337**	26,489,837
Parent Company Shares Held by a Subsidiary	**(200,112)**	(200,112)	**(4,740)**	(4,740)
	1,086,008,304	662,045,804	**₱43,443,597**	₱26,485,097

The Parent Company shares are listed in the PSE.

Pursuant to the 1986 Revised Charter of the Parent Company, the Parent Company's authorized capital stock was ₱10.0 billion divided into 100,000,000 common shares with a par value of ₱100.00 per share. Its principal stockholder was the 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 ₱25.0 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 ₱25.0 billion divided into 250,000,000 common shares with a par value of ₱100.00 per share to ₱15.0 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 ₱15.0 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.

On January 17, 2013, the SEC approved the conversion of the Parent Company's 195,175,444 authorized preferred shares into common shares, thereby increasing its authorized common shares to 1,250,000,001. The increase in authorized common shares is intended to accommodate the issuance of the Parent Company of common shares to ABC shareholders relative to the business combination.

As of March 31, 2013 and December 31, 2012, the Parent Company had 30,729 and 30,825 stockholders, respectively.

Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.8 billion as of March 31, 2013 and December 31, 2012 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.

Accumulated Translation Adjustment

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.

Surplus Reserves
The surplus reserves consist of:

	March 31, 2013	December 31, 2012
Reserve for trust business (Note 31)	**₱444,003**	₱298,253
Reserve for contingencies and other accounts	**191,634**	191,634
Reserve for self-insurance	**80,000**	80,000
	₱715,637	₱569,887

Reserve for self-insurance, contingencies and other account represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

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, which is based on consolidated CAR combined credit, market and operational risks (BSP Circular No. 538), as of March 31, 2013 and December 31, 2012 as reported to the BSP are shown in the table below (amounts in millions).

	March 31, 2013		December 31, 2012	
Consolidated	**Actual**	**Required**	Actual	Required
Tier 1 capital	**₱57,999.9**		₱26,508.6	
Tier 2 capital	**18,563.0**		14,707.2	
Gross qualifying capital	**76,562.9**		41,215.8	
Less required deductions	**584.1**		3,122.7	
Total qualifying capital	**₱75,978.8**	**₱35,040.8**	₱38,093.1	₱21,023.9
Risk weighted assets	**₱350,407.8**		₱210,239.2	
Tier 1 capital ratio	**16.47%**		11.87%	
Total capital ratio	**21.68%**		18.12%	

Merger Incentives
In connection with the merger of the Parent Company with ABC, the BSP gave certain incentives and the more relevant incentives are:

(a) Recognition of the fair value adjustments under GAAP and RAP books;
(b) Full recognition of appraisal increment from the revaluation of premises, improvements and equipment in the computation of CAR.

The Parent Company and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the period.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation
In compliance with BSP Circular 639, the Parent Company 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 Parent Company's operations by ensuring that the Parent Company 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 Parent Company has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Parent Company complies with the required annual submission of updated ICAAP.

Fixed capitalization requirements
Department of Finance (DOF) issued Order 27-06 which provides for the capitalization requirements for life, non-life and reinsurance companies. Under this order, the minimum statutory net worth and minimum paid-up capital requirements vary depending on the level of the foreign ownership in the insurance company. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. On June 1, 2012, the DOF issued Order 15-2012 which serves as a supplement to Order 27-06 which provides capitalization requirements beyond December 31, 2012.

On October 29, 2008, the IC issued Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of Insurance Memorandum Circular (IMC) No. 10-2006, the scheduled increases due December 31, 2007 (i.e. ₱150 million) have been deferred for a year. Hence, the IMC reiterates that by December 31, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007.

As of March 31, 2013, the required minimum statutory net worth and minimum paid-up capital for PNB LII, being a Filipino-owned life insurance company, is ₱500.0 million and ₱250.0 million, respectively. PNB LII has complied with the minimum statutory net worth and paid-up capital requirements as of March 31, 2013 based on PNB LII's own calculation.

As of March 31, 2013 and December 31, 2012, the required minimum statutory net worth and minimum paid-up capital for PNB Gen, being Filipino-owned nonlife insurance company is ₱500.0 million and ₱250.0 million, respectively, in 2013 and 2012. The PNB Gen has complied with the minimum statutory net worth and paid-up capital requirements as of March 31, 2013 and December 31, 2012 based on PNB Gen's own calculation.

Financial Performance

The following basic ratios measure the financial performance of the Group for the periods ended March 31, 2013 and December 31, 2012 (amounts in millions):

	March 31, 2013 (Three Months)	December 31, 2012 (As restated - Note 2) (One Year)
Return on average equity (a/b)	**4.54%**	3.57%
a.) Net income	**₱2,840**	₱1,289
b.) Average total equity	**62,491**	36,150
Return on average assets (c/d)	**0.64%**	0.40%
c.) Net income	**₱2,840**	₱1,289
d.) Average total assets	**440,295**	320,871
Net interest margin on average earning assets (e/f)	**0.70%**	0.66%
e.) Net interest income	**₱2,622**	₱1,863
f.) Average interest earning assets	**374,595**	283,626

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 period divided by two.

26. Income and Expenses

Service fees and commission income consists of:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Deposit-related	**₱255,675**	₱209,686
Credit-related	**199,369**	30,737
Remittance	**114,724**	45,368
Trust fees (Note 31)	**99,335**	209,629
Miscellaneous	**93,339**	25,631
	₱762,442	₱521,051

Miscellaneous income consists of:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Recoveries	**₱173,085**	₱5,664
Rental (Notes 28 and 32)	**107,415**	76,430
Penalty charges	**10,943**	2,103
Referral and trust fees	**6,133**	–
Share in net income of associate	**4,975**	18,300
Others	**69,555**	18,853
	₱372,106	₱121,350

Net gains on sale or exchange of assets of the Group include net gains from sale of investment properties for the three-month periods ended March 31, 2013 and 2012 amounting to ₱92.7 million and ₱99.3 million, respectively.

The gain on step-up acquisition includes ₱83.9 million (see Note 12) and ₱57.1 million gain arising from the step-up acquisition of investments in ACB and PNB Life which were accounted for as disposals of equity investments.

The details of net premiums on life insurance contracts for the three-month period ended March 31, 2013 are shown below:

Insurance contract premiums revenue	
Ordinary life insurance	₱144,152
Group life insurance	63,227
Unit-linked	29,142
	236,521
Reinsurers' share of insurance contract premiums revenue	1,686
	₱234,835

The details of net premiums on nonlife insurance contracts are shown below:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Insurance contract premiums revenue		
Direct	**₱395,889**	₱344,579
Assumed	**21,277**	25,166
Total nonlife insurance contract premiums revenue	**417,166**	369,745
Gross change in provisions for unearned premiums	**(52,934)**	(35,330)
	364,232	334,415

(Forward)

	Three Months Ended	
	March 31, 2013	March 31, 2012
Insurers' share of insurance contract premiums revenue		
Direct	**₱200,174**	₱186,541
Assumed	**45,206**	39,188
Total nonlife insurance contract premiums revenue	**245,380**	225,729
Gross change in provisions for unearned premiums	**(17,487)**	(5,881)
	227,893	219,848
	₱136,339	₱114,567

Miscellaneous expenses consist of:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Insurance	**₱316,672**	₱247,803
Litigation	**211,477**	10,469
Increase in aggregate reserve for life policies	**142,906**	–
Security, clerical, messengerial	**142,628**	98,744
Promotional	**102,013**	96,427
Management and professional fees	**75,175**	42,117
Transportation and travel	**70,380**	47,552
Information technology	**68,828**	36,124
Foreclosure and other ROPA related expenses (Note 13)	**63,674**	49,111
Stationery and supplies used	**51,498**	34,772
Amortization of software costs (Note 15)	**42,946**	38,053
EARE (Note 29)	**36,378**	31,210
Postage, telephone and telegram	**32,399**	27,449
Repairs and maintenance	**22,830**	14,748
Membership dues and fees	**2,479**	3,300
Others	**171,958**	593,835
	₱1,554,241	₱1,371,714

Miscellaneous - others include amortization of deferred charges, loss on property destroyed, periodicals and magazines, fines, penalties and other charges.

27. Retirement Plan

Defined benefit 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%) of plan salary per month for every year of credited service.

The following table shows the actuarial assumptions as of March 31, 2013, December 31, 2012 and January 1, 2012 used in determining the retirement benefit obligation of the Parent Company:

	March 31, 2013	December 31, 2012	January 1, 2012
Discount rate	**3%-4%**	6%	6%
Salary rate increase	**5%-8%**	8%	8%
Estimated working lives	**11-14 years**	14 years	14 years

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 March 31, 2013. As of March 31, 2013, the Parent Company has two separate retirement plans for the employees of PNB and ABC.

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

	March 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
Present value of defined benefit obligation	**₱6,071,817**	₱3,141,154	₱2,828,807
Fair value of plan assets	**2,284,378**	1,317,810	797,883
Retirement liability	**₱3,787,439**	₱1,823,344	₱2,030,924

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

	March 31, 2013 (Three Months)	December 31, 2012 (As restated- Note 2) (One Year)	January 1, 2012 (As restated- Note 2) (One Year)
Balance at beginning of period	**₱3,141,154**	₱2,828,807	₱1,827,591
Effect of business combinations	**1,589,861**	–	–
Current service cost	**85,854**	265,458	160,225
Interest cost	**59,001**	175,165	143,754
Benefits paid	**(74,623)**	(140,457)	(191,951)
Remeasurement (gains) losses:			
Experience adjustments	**303,433**	(216,253)	(66,200)
Actuarial losses arising from changes in financial assumptions	**967,137**	228,434	955,388
Balance at end of period	**₱6,071,817**	₱3,141,154	₱2,828,807

There are no actuarial gains and losses arising from changes in demographic assumptions.

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

	March 31, 2013 (Three Months)	December 31, 2012 (As restated - Note 2) (One Year)	January 1, 2012 (As restated - Note 2) (One Year)
Balance at beginning of period	**₱1,317,810**	₱797,883	₱973,864
Effect of business combination	**839,976**	–	–
Contributions	**40,783**	363,390	50,000
Return on assets excluding amount in net interest cost	**136,928**	238,887	(111,355)
Benefits paid	**(74,623)**	(140,457)	(191,951)
Interest income	**23,504**	58,107	77,325
Balance at end of period	**₱2,284,378**	₱1,317,810	₱797,883

The fair value of the plan assets as of March 31, 2013, December 31, 2012 and January 1, 2012 includes investments in the Parent Company shares of stock with fair value amounting to ₱791.2 million, ₱712.9 million and ₱441.8 million, respectively.

The actual return on plan assets of the Parent Company amounted to gains of ₱160.4 million and ₱296.9 million for the three-month period ended March 31, 2013 and for the year ended December 31, 2012, respectively.

There were no changes in the effect of asset ceiling as of March 31, 2013 and December 31, 2012.

The amounts pertaining to the Parent Company that is included in the Group's statements of income are as follows:

	Three Months Ended	
	March 31, 2013	March 31, 2012 (As restated - Note 2)
Net interest cost*	**₱35,497**	₱29,264
Current service cost**	**85,854**	66,365
	₱121,351	₱95,629

**Included under interest expense in the statements of income*
***Included under compensation and fringe benefits in the statements of income*

The amounts of defined benefit cost of the Parent Company which is included in the Group's statements of other comprehensive income from actuarial losses (gains) follow:

	Three Months Ended	
	March 31, 2013	March 31, 2012 (As restated - Note 2)
Actuarial loss on present value of retirement obligation	**₱1,270,570**	₱3,045
Return on plan assets	**(136,928)**	(59,722)
	1,133,642	(56,677)
Income tax effect	**4,865**	–
	₱1,138,507	(₱56,677)

The fair values of plan assets of the Parent Company by each class as at the end of the reporting periods are as follow:

	March 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	**₱453,559**	₱306,412	₱16,004
Equity instruments			
Financial Institutions	**791,213**	712,875	441,826
Manufacturing	**23,668**	5,100	–
Debt instruments			
Government securities	**660,034**	92,486	156,280
Below AAA and not rated private debt securities	**66,397**	–	–
Investment in Mutual Funds	**111,131**	97,077	78,150
	2,106,002	1,213,950	692,260
Loans and receivables			
Financial Institutions	**66,825**	58,000	43,000
Power	**19,701**	33,611	34,650
Real Estate	**10,890**	10,000	10,000
Consumption	**10,692**	–	–
Industrial	**5,940**	–	–
Commercial	**5,346**	–	–
Others	**31,763**	–	15,000
Interest and other receivables	**27,219**	2,249	2,973
	178,376	103,860	105,623
Fair value of plan assets	**₱2,284,378**	₱1,317,810	₱797,883

All equity and debt instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market, thus, their fair value is determined using the discounted cash flow methodology, using the Parent Company's current incremental lending rates for similar types of loans and receivables.

The plan assets have diverse investments and do not have any concentration risk.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	March 31, 2013	
	Possible fluctuations	Increase (decrease)
Discount Rates	-1.00%	₱719,456
Future Salary Increase Rate	+2.00%	1,203,991

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

	March 31, 2013 (Three Months)	December 31, 2012 (As restated - Note 2) (One Year)	January 1, 2012 (As restated - Note 2) (One Year)
Balance at beginning of period	**₱1,823,344**	₱2,030,924	₱853,727
Retirement liability assumed from business combination	**749,885**	–	–
Retirement expense	**121,351**	382,516	226,654
Actual contributions	**(40,783)**	(363,390)	(50,000)
Remeasurement losses (gains):			
Experience adjustments	**303,433**	(216,253)	(66,200)
Actuarial gains and losses arising from changes in financial assumptions	**967,137**	228,434	955,388
Return on assets excluding amount in net interest cost	**(136,928)**	(238,887)	111,355
Balance at end of period	**₱3,787,439**	₱1,823,344	₱2,030,924

There are no actuarial gains and losses arising from changes in demographic assumptions.

The Parent Company believes that the plan has sufficient funds to pay any retiring employee in the near future. Accordingly, it does not expect to contribute to the plan in 2013.

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

	March 31, 2013	December 31, 2012	January 1, 2012
Debt securities and others	**36%**	39%	25%
Parent Company's own common shares	**35**	54	55
Government securities	**29**	7	20
	100%	100%	100%

The carrying values of the plan assets of the Parent Company amounted to ₱2.3 billion, ₱1.3 billion and ₱0.8 billion as of March 31, 2013, December 31, 2012 and January 1, 2012, respectively.

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

	March 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009
Present value of the defined benefit obligation	**₱6,071,817**	₱3,141,154	₱2,828,807	₱1,827,591	₱2,218,999
Fair value of plan assets	**2,284,378**	1,317,810	797,883	973,864	750,100
Deficit on plan assets	**3,787,439**	1,823,344	2,030,924	853,727	1,468,899
Experience adjustments arising on plan liabilities	**303,433**	(216,253)	(66,200)	(273,035)	(24,385)
Experience adjustments arising on plan assets	–	–	–	212,432	70,857

As of March 31, 2013, December 31, 2012 and January 1, 2011, the retirement liability (asset) included in 'Other liabilities' (see Note 22) and 'Other assets' (see Note 15), respectively, of certain subsidiaries of the Group follows:

	PNB Europe	PNB Capital	PNB Securities	PNB Italy	Japan-PNB	PNB Gen	ASB	ALFC	PNB LII
2013	**₱21,795**	**(₱1,071)**	**₱155**	**₱7,497**	**₱291**	**₱19,424**	**(₱3,729)**	**(₱3,706)**	**₱6,953**
2012	2,124	(1,184)	1,398	7,377	648	19,567	–	–	–
2011	39,970	–	992	7,741	1,575	14,003	–	–	–

Defined contribution plan
The Parent Company has no shortfall in the computed return from the date of the business combination up to March 31, 2013.

28. 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 10.00%.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱102.2 million and ₱95.1 million for the three-month periods ended March 31, 2013 and 2012.

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

	March 31, 2013	December 31, 2012
Within one year	**₱476,667**	₱457,904
Beyond one year but not more than five years	**765,819**	819,177
More than five years	**24,601**	28,698
	₱1,267,087	₱1,305,779

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). For the three-month periods ended March 31, 2013 and 2012, total rent income (included under 'Miscellaneous income') amounted to ₱37.9 million and ₱36.6 million, respectively, for the Group (see Note 26).

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

	March 31, 2013	December 31, 2012
Within one year	**₱102,746**	₱103,870
Beyond one year but not more than five years	**147,833**	155,447
More than five years	**14,944**	–
	₱265,523	₱259,317

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 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 lease receivables under finance leases are as follows:

	March 31, 2013	December 31, 2012
Within one year	**₱1,225,220**	₱889,311
Beyond one year but not more than five years	**1,553,310**	1,068,345
More than five years	**85,200**	85,800
Total (Note 9)	**2,863,730**	2,043,456
Less amounts representing finance charges	**309,264**	292,797
Present value of minimum lease payments	**₱2,554,466**	₱1,750,659

29. **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 30.00% and interest allowed as a deductible expenses shall be reduced by 33.00% of interest income subjected to final tax.

A minimum corporate income tax (MCIT) of 2.00% 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, the Parent Company and certain subsidiaries are allowed to deduct NOLCO from their taxable income for the next three years from the period of incurrence.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% 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:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Current		
Regular	**₱576,420**	₱51,155
Final	**573,010**	195,308
	1,149,430	246,463
Deferred	**(487,538)**	(8,379)
	₱661,892	₱238,084

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

	March 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
Deferred tax assets	**₱1,089,464**	₱1,780,682	₱1,775,789
Deferred tax liabilities (Note 22)	**(140,915)**	(3,873)	(20,873)
	₱948,549	₱1,776,809	₱1,754,916

The components of net deferred tax assets follow:

	March 31, 2013	December 31, 2012 (As restated-Note 2)	January 1, 2012 (As restated-Note 2)
Deferred tax asset on:			
Allowance for impairment, credit and other losses	**₱4,751,289**	₱4,323,439	₱4,446,842
Accumulated depreciation on investment properties	**674,209**	624,305	784,797
Others	**660,338**	168,436	67,500
	6,085,836	5,116,180	5,299,139
Deferred tax liability on:			
Revaluation increment on land and buildings	**2,079,821**	878,483	909,138
Fair value adjustment on investment properties	**2,017,629**	1,988,219	2,184,845
Unrealized trading gains on derivatives	**123,276**	141,835	106,777
Fair value adjustments due to business combination	**711,328**	–	–
Unrealized gain on AFS investments	**11,146**	8,856	34,637
Others	**194,087**	321,978	308,826
	5,137,287	3,339,371	3,544,223
	₱948,549	₱1,776,809	₱1,754,916

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

	Three Months Ended	
	March 31, 2013	March 31, 2012 (As restated)
Remeasurement losses on retirement plan	**₱4,865**	₱–
Net unrealized gain (loss) on AFS investments	**304**	(25,781)

Based on the financial forecast prepared by management and duly approved by the Executive Committee of the BOD, the Parent Company's net deferred tax assets of ₱0.9 billion and ₱1.7 billion as of March 31, 2013 and December 31, 2012 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:

	March 31, 2013	December 31, 2012
Allowance for impairment and credit losses	**₱1,824,758**	₱745,941
Retirement liability	**855,517**	421,186
Provisions	**591,373**	472,630
NOLCO	**279,125**	1,172
MCIT	**50,737**	361,071
Derivative liabilities	**11,999**	85,125
Others	**429,880**	164,574
	₱4,043,389	₱2,251,699

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2010	₱118,430	₱–	₱118,430	2013
2011	85,165	–	85,165	2014
2012	75,530	–	75,530	2015
	₱279,125*	₱–	₱279,125	

**Balance includes NOLCO amounting to ₱277,953 acquired from business combination*

Details of the Group's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2010	₱133,809	(₱113,068)	₱20,741	2013
2011	169,924	(164,385)	5,539	2014
2012	195,475	(171,018)	24,457	2015
	₱499,208	(₱448,471)	₱50,737	

**Balance includes MCIT amounting to ₱138,137 acquired from business combination*

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

	Three Months Ended	
	March 31, 2013	March 31,2012 (As restated - Note 2)
Statutory income tax rate	**30.00%**	30.00%
Tax effects of:		
Tax-paid income	**(13.77)**	(13.18)
Net non-deductible expenses	**12.03**	16.88
Tax-exempt income	**(7.23)**	(7.45)
FCDU income before tax	**(3.34)**	(11.30)
Net unrecognized deferred tax assets	**1.21**	0.64
Effective income tax rate	**18.90%**	15.59%

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) of the Group amounted to ₱36.4 million and ₱31.2 million for the three-month periods ended March 31, 2013 and 2012, respectively.

30. Earnings Per Share

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

	Three Months Ended	
	March 31, 2013	March 31, 2012 (As restated)
a) Net income attributable to equity holders of the Parent Company	**₱2,827,420**	₱1,287,197
b) Weighted average number of common shares for basic earnings per share (Note 25)	**944,687**	662,046
c) Basic and diluted earnings per share (a/b)	**₱2.99**	₱1.94

There are no potential common shares that would dilute the earnings per share.

31. 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 consolidated statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱100.4 billion and ₱56.0 billion as of March 31, 2013 and December 31, 2012, respectively (see Note 33). In connection with the trust functions of the Parent Company, government securities amounting to ₱1.1 billion and ₱0.6 billion (included under 'AFS investments') as of March 31, 2013 and December 31, 2012, 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 ₱145.7 million of which ₱136.2 million pertains to the required reserve of the trust business arising from business combination as of March 31, 2013 and ₱9.7 million as of December 31, 2012, 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.

32. 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 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of March 31, 2013 and December 31, 2012, the Parent Company was in compliance with such regulations.

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

	March 31, 2013	December 31, 2012
Total Outstanding DOSRI Accounts	**₱5,803,352**	₱2,650,526
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**1.82%**	2.03%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**1.82%**	2.03%
Percent of DOSRI accounts to tota loans	**1.82%**	2.03%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.99%**	3.29%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

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 10.00% of a bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Details on significant related party transactions of the Group follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

	As of March 31, 2013		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Subsidiaries			
Receivables from customers		**₱564,000**	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 90 days Unsecured - ₱564.0 million with no impairment
Accounts receivable		**200,192**	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing; unsecured; payable on demand
Accrued interest receivable		**1,008**	Interest in receivables from customers
Deposit liabilities		**1,559,757**	With annual rates ranging from 0.10% to 3.00% and maturity terms ranging from 30 days to one (1) year
Bills payable		**1,076,050**	Foreign currency-denominated bills payable with fixed annual interest rate of 0.85% and maturity term of 180 days; unsecured
Accrued interest payable		**363**	Interest on deposit liabilities and bills payable
Due to other banks		**253,983**	Clearing accounts for funding and settlement of remittances
Due from other banks		**229,226**	With annual fixed interest rates ranging from 0.01% to 4.50% including time with maturities of up to 90 days
Operating lease		**203**	Advance rental deposit received for 2 years and 3 months
	Three Months Ended March 31, 2013		
Interest income	**₱5,993**		Interest income on receivable from customers
Interest expense	**3,173**		Interest expense on deposit liabilities and bills payable
Rental income	**5,960**		Rental income with lease terms ranging from 2 to 5 years and annual escalation rates ranging from 5.00% to 10.00%
Fees and commissions	**32**		Professional fees on service agreement
Other expense	**501**		Share in utilities expense
Securities transactions:			
Purchases	**688,645**		Outright purchase of securities
Sales	**361,458**		Outright sale of securities
Trading gains	**4,235**		Gain from sale of investment securities

	As of March 31, 2013		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Other Related Parties			
Receivable from customers		**₱5,757,756**	Loans with interest rates ranging from 0.50% to 16.50% and maturity terms ranging from 11 months to 25 years Secured - ₱2.8 billion and unsecured - ₱0.1 billion; without impairment Collaterals include bank deposits hold-out, real estates and chattel mortgages
Sales contract receivables		**105,750**	Arising from sale of investment property; title will be transferred upon full payment; non-interest bearing loan payable within one year Secured - ₱105.8 million; with no impairment Collateral pertains to investment property sold
Accrued interest receivables		**15,764**	Accrued interest of receivables from customers

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of March 31, 2013		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Bills payable		**610,800**	With annual interest rates ranging from 5.00% to 5.50%; maturity terms ranging from 90 to 180 days; unsecured
Deposit liabilities		**4,120,300**	With annual interest rates ranging from 0.38% to 1.93% and maturity terms ranging from 30 days to one (1) year
Accrued interest payable		**4,951**	Interest on deposit liabilities and bills payable
Operating lease		**203**	Advance rental deposit received for 2 years and 3 months
Due from other banks		**2,343,552**	With annual fixed interest rates ranging from 0.01% to 4.50% including time with maturities of up to 90 days and savings with interest rate of 13.00%
Investment securities		**249,719**	49,943,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱249.0 million
	Three Months Ended March 31, 2013		
Interest income	**₱59,286**		Interest income on receivable from customers and due from other banks
Interest expense	**6,175**		Interest expense on deposit liabilities and bills payable
Rental income	**20,402**		Rental income with lease terms ranging from 2 to 10 years and annual escalation rates ranging from 5.0% to 10.0%
Rental expense	**3,251**		Monthly rent payments to related parties with terms ranging from 24 to 240 months
Fees and commissions expense	**2,164**		Expense on professional fees on service agreement
Securities transactions:			
Purchases	**11,539,297**		Outright purchase of securities
Sales	**1,425,198**		Outright sale of securities
Trading gains	**73,539**		Gain from sale of investment securities
Deposits	**76,539,438**		Deposits for the period
Withdrawals	**796,517**		Withdrawals for the period
Loan releases	**25,316**		Loan drawdowns
Loan collections	**2,524,276**		Settlement of loans and interest

	As of December 31, 2012		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Receivables from customers		₱564,000	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 31 days Unsecured - ₱564.0 million with no impairment
Accounts receivable		106,458	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		1,026	Interest on receivables from customers
Deposit liabilities		552,297	With annual rates ranging from 0.10% to 3.00% and maturity terms ranging from 30 days to one (1) year
Bills payable		863,579	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured
Accrued interest payable		3,473	Interest on deposit liabilities and bills payable
Due to banks		205,480	Clearing accounts for funding and settlement of remittances

	Year Ended December 31, 2012		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Interest income	₱28,271		Interest income on receivable from customers
Interest expense	12,772		Interest expense on deposit liabilities and bills payable
Other income	7,615		Rental income with lease term of three (3) years and annual escalation rate of 10.00%
Other expense	2,004		Share in utilities expense

	As of December 31, 2012		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Receivable from customers		₱2,873,011	Loans with interest rates ranging from 0.50% to 16.50% and maturity terms ranging from one (1) month to 25 years. Secured - ₱2.8 billion and unsecured - ₱0.1 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Sales Contract Receivables		105,750	Arising from sale of investment property Title will be transferred upon full payment Non-interest bearing loan payable within one year Secured - ₱105.8 million; with no impairment Collateral pertains to investment property sold
Accrued interest receivables		1,647	Interest on receivables from customers
Bills payable		554,175	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		1,272,976	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Due from other banks		196,977	Includes savings deposits with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱270.0 million.

	Year Ended December 31, 2012		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Interest income	₱154,464		Interest income on receivable from customers
Profit from asset sold	39,095		Gain from sale of investment property
Interest expense	10,626		Interest expense on deposit liabilities
Other income	16,830		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5.00% starting sixth year of the lease term
Securities transactions:			
Purchases	16,431,445		Outright purchase of securities
Sales	11,884,060		Outright sale of securities
Trading gains	19,017		Gain from sale of investment securities
Loan releases	512,941		Loan drawdowns
Loan collections	2,326,902		Settlement of loans and interest

The related party transactions shall be settled in cash. There are no provisions for credit losses for the three-month periods ended March 31, 2013 and 2012 in relation to amounts from related parties.

The compensation of the key management personnel follows:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Short-term employee benefits	**₱69,755**	₱33,837
Post-employment benefits	**12,211**	4,911
	₱81,966	₱38,748

The Parent Company and EPPI signed two JVA for the development of two properties under 'Real estate under joint venture (JV) agreement' by the Parent Company with book values of ₱1.2 billion. These two projects are among the Parent Company's strategies in reducing its non-performing assets.

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. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVA. This JVA does not fall as joint venture arrangement under PFRS 11.

Transactions with Retirement Plans
Management of the retirement funds of the Group is handled by the Parent Company's Trust Banking Group (TBG). The fair values and carrying values of the funds amounted to ₱2.3 billion and ₱1.3 billion, respectively, as of March 31, 2013 and December 31, 2012.

Relevant information on Funds' assets/liabilities as of March 31, 2013 and December 31, 2012 and income/expense for the three-month period ended March 31, 2013 and for the year ended December 31, 2012 are as follows:

	March 31, 2013	December 31, 2012
Investment securities:		
Held for trading	**₱791,213**	₱712,875
Available-for-sale	**789,769**	212,437
Held-to-maturity	**66,397**	68,000
Deposits with other banks	**453,225**	263,830
Deposits with PNB	**334**	50,792
Loans and other receivables	**183,323**	37,807
Total Fund Assets	**₱2,284,261**	₱1,345,741
Trust Fees Payable	**₱–**	₱754
Accrued Expense	**891**	–
Due to BIR	**320**	–
Total Fund Liabilities	**₱1,211**	₱754

Fund Income	**March 31, 2013 (Three Months)**	December 31, 2012 (One Year)
Interest income	**₱16,591**	₱20,738
Trading gain	**1,142**	–
Dividend income	**546**	–
Unrealized gains on HFT (PNB)	**–**	271,049
Gains on sale of investment securities	**–**	72
	₱18,279	₱291,859
Fund Expense		
Trust fees	**₱899**	₱2,442
Other expenses	**2,381**	270
	₱3,280	₱2,712

As of March 31, 2013 and December 31, 2012, the retirement fund of the Group include 7,833,795 shares of PNB classified under HFT. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of March 31, 2013 and December 31, 2012, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP. Loans and other receivables include accrued interest amounting to ₱0.04 million as of March 31, 2013 and December 31, 2012 and income include interest on deposit with PNB amounting to ₱0.3 million and ₱1.0 million for the three-month periods ended March 31, 2013 and 2012, respectively, for the Group. Investments are approved by an authorized fund manager or officer of TBG.

Other fund managed by TBG

The TBG manages the sinking fund established by PSC to secure its borrowings with the Parent Company. As of March 31, 2013 and December 31, 2012, the sinking fund amounted to ₱5.3 billion and ₱5.2 billion, respectively (see Note 9).

33. Provisions, Contingent Liabilities and Other Commitments

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 60.00% 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 50.00% 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'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 revalued amount 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.

As of December 31, 2012, the total trust assets of the escrow account maintained with the BSP amounted to ₱2.9 billion. Average yield during the year was 5.49%. 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.

On February 7, 2013, the BSP accepted the Parent Company's proposal to make an early payment to settle the ₱3.0 billion obligation to the BSP in exchange of the assets under the escrow fund. The real estate collaterals pledged to BSP were also released as a result of settlement of the obligation to BSP.

As discussed in Note 9, 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. 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 taxs, 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. On May 9, 2012, the Arbitration Panel issued a Partial Award in favor of the SPV companies, including such reliefs as payment of a certain sum of money and transfer of clean titles on the plant assets under the name of NSC by the bank consortium and the NSC Liquidator in favor of the SPV companies. The Parent Company, one of the members of the consortium, holds a forty-one percent (41%) interest in the claim, and has already set aside the appropriate reserve provision for the same.

Meanwhile, on July 9, 2012, the bank consortium filed with the Singapore High Court a Petition to Set Aside the Partial Award rendered by the Arbitration Panel, which Petition is pending to date.

Movements of provisions for legal claims for the Group are as follows:

	March 31, 2013 (Three Months)	December 31, 2012 (One Year)
Balance at beginning of period	**₱1,575,433**	₱874,950
Provisions	**200,000**	834,259
Provisions acquired through business combination	**195,971**	–
Reclassification and settlements	**(162)**	(133,776)
Balance at end of period	**₱1,971,242**	₱1,575,433

BSP Reporting
The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	March 31, 2013	December 31, 2012
Trust department accounts (Note 31)	**₱100,418,539**	₱55,976,479
Deficiency claims receivable	**11,850,751**	6,309,340
Credit card lines	**11,043,390**	–
Outstanding guarantees issued	**1,257,880**	628,422
Other contingent accounts	**520,056**	41,317
Outward bills for collection	**360,346**	105,029
Inward bills for collection	**312,517**	140,548
Unused commercial letters of credit	**139,258**	36,096
Confirmed export letters of credit	**78,901**	78,126
Items held as collateral	**52**	244

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

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

	Three Months Ended	
	March 31, 2013	March 31, 2012
Due from other banks	**₱3,484,186**	₱–
Due from BSP	**–**	19,300,000
	₱3,484,186	₱19,300,000

35. **Offsetting of Financial Assets and Liabilities**

The amendments to PFRS 7, which is effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

	March 31, 2013					
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative assets (Note 7)	**₱24,118,063**	**₱23,753,313**	**₱364,750**	**₱–**	**₱–**	**₱364,750**
Securities held under agreements to resell (Note 4)	**20,000,000**	**–**	**20,000,000**	**–**	**19,970,313**	**29,687**
Total	**₱44,118,063**	**₱23,753,313**	**₱20,364,750**	**₱–**	**₱19,970,313**	**₱394,437**

	December 31, 2012					
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative assets (Note 7)	₱13,918,337	₱13,526,872	₱391,465	₱295,260	₱–	₱96,205
Securities held under agreements to resell (Note 4)	18,300,000	–	18,300,000	–	18,874,894	–
Total	₱32,218,337	₱13,526,872	₱18,691,465	₱295,260	₱18,874,894	₱96,205

Financial liabilities

	March 31, 2013					
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative liabilities (Note 18)	**₱16,822,654**	**₱16,782,658**	**₱39,996**	**₱–**	**₱–**	**₱39,996**
Securities sold under agreements to repurchase (Notes 8 and 19)*	**4,949,058**	**–**	**4,949,058**	**158,091**	**6,301,144**	**–**
Bills payable (Notes 8 and 19)	**1,222,646**	**–**	**1,222,646**	**–**	**3,515,120**	**–**
Total	**₱22,994,358**	**₱16,782,658**	**₱6,211,700**	**₱158,091**	**₱9,816,264**	**₱39,996**

	December 31, 2012					
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities (Note 18)	₱12,162,897	₱11,879,146	₱283,751	₱–	₱–	₱283,751
Securities sold under agreements to repurchase (Notes 8 and 19)*	2,971,471	–	2,971,471	21,141	3,509,709	–
Bills payable (Notes 8 and 19)	2,948,934	–	2,948,934	–	4,756,800	–
Total	₱18,083,302	₱11,879,146	₱6,204,156	₱21,141	₱8,266,509	₱283,751

** Included in bills and acceptances payable in the statements of financial position*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

36. Events After Reporting Date

Redemption of ₱6.0 Billion Unsecured Subordinated Notes
On June 20, 2013, the Parent Company exercised its Call Option on its ₱6.0 billion 8.50% Unsecured Subordinated Notes due on June 18, 2018 amounting to ₱5.8 billion (Series A) and ₱0.2 billion (Series B) in accordance with the terms and conditions of the Unsecured Subordinated Notes issued on June 19, 2008. The notes were redeemed at face value and no gain or loss was recognized on the date of settlement.

Increase in Authorized Capital Stock
On May 28, 2013, the Stockholders of the Parent Company approved the following at their Annual Stockholders' Meeting:

1. Increase in Authorized Capital Stock of the Parent Company from ₱50,000,000,040.00 divided into 1,250,000,001 Common Shares with a par value of Forty Pesos (₱40.00) per share to ₱70,000,000,040.00 divided into 1,750,000,001 common shares with a par value of Forty Pesos (₱40.00) per share.

2. Amendment of Article Vll of the Articles of Incorporation to reflect the aforementioned increase in the authorized capital of stock of the Parent Company.

Approval and Confirmation of Planned Issuance of LTNCD
On May 24, 2013, the BOD of the Parent Company approved the issuance of Peso denominated LTNCD of up to ₱5.0 billion. On July 11, 2013, the BSP granted the Parent Company the authority to issue such LTNCD.

The Parent Company plans to launch the offer during the third quarter of 2013, subject to compliance with regulatory requirements. Proceeds from the LTNCD will be used for general corporate purposes and to further strengthen banking operations.

37. Approval of the Release of the Consolidated Financial Statements

The accompanying consolidated financial statements of the Group were authorized for issue by the BOD on July 18, 2013.

PNB

Philippine National Bank
Authorized Depository of the Republic of the Philippines
Trunk Lines: (632)526-3131 to 70/891-6040 t 70
P.O. Box 1884 (Manila) • P.O. Box 410 (Pasay)

March 18, 2013

MS. JANET A. ENCARNACION
Head, Disclosure Department
The Philippine Stock Exchange, Inc.
3rd Flr., Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Dear Ms. Encarnacion:

We are pleased to furnish the Exchange copies of the Audited Financial Statements of the Philippine National Bank (PNB) and Subsidiaries and the Allied Banking Corporation (ABC) and Subsidiaries as of December 31, 2012 and 2011 and January 1, 2011, and Years Ended December 31, 2012, 2011, 2010.

Very truly yours,

Doris S. Te

DORIS S. TE
Corporate Secretary

Philippine National Bank and Subsidiaries

Financial Statements
December 31, 2012 and 2011, and January 1, 2011
and Years Ended December 31, 2012, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine National Bank

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, 2012 and 2011 and January 1, 2011, 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, 2012 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 Philippine Financial Reporting Standards, 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 audit opinion.

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, 2012 and 2011 and January 1, 2011 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

Other Matter

In our auditors' report dated March 6, 2012, our opinion on the 2011 and 2010 financial statements prepared in accordance with accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks) was qualified because: (1) losses on non-performing assets (NPAs) sold to special purpose vehicles (SPVs) were recognized as deferred charges and amortized over a ten-year period instead of being charged in full against operations in the year the NPAs were sold as required by Philippine GAAP for banks and (2) the NPAs sold to an SPV in 2007 and 2006 were derecognized instead of consolidating the accounts of the SPV company that acquired the NPAs of the Parent Company in 2007 and 2006 into the Group's accounts in accordance with Philippine GAAP for banks.

As explained in Note 2 to the financial statements, the 2011 and 2010 financial statements previously prepared in accordance with Philippine GAAP for banks have been prepared in accordance with Philippine Financial Reporting Standards. The deferred losses were charged against operations in the years the NPAs were sold and the accounts of the SPV company that acquired the NPAs in 2007 and 2006 were consolidated into the Group's accounts in accordance with Philippine Financial Reporting Standards. Accordingly, our opinion on the 2011 and 2010 financial statements, as presented herein, is no longer qualified.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez

Janeth T. Nuñez
Partner
CPA Certificate No. 111092
SEC Accreditation No. A-560-A (Group A),
Valid until May 31, 2013
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3670006, January 2, 2013, Makati City

February 22, 2013

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

	Consolidated			Parent Company		
	December 31		January 1	December 31		January 1
	2012	2011 (As Restated - Note 2)	2011 (As Restated - Note 2)	2012	2011 (As Restated - Note 2)	2011 (As Restated - Note 2)
ASSETS						
Cash and Other Cash Items (Note 16)	**₱5,599,088**	₱5,404,110	₱5,457,186	**₱5,548,325**	₱5,303,112	₱5,309,611
Due from Bangko Sentral ng Pilipinas (Notes 16 and 33)	**37,175,399**	38,152,795	24,285,986	**36,531,047**	37,492,594	24,273,986
Due from Other Banks	**4,042,769**	6,423,981	5,141,549	**3,293,782**	4,906,698	3,945,632
Interbank Loans Receivable	**11,498,756**	17,097,648	12,691,967	**11,498,756**	17,097,648	12,245,259
Securities Held Under Agreements to Resell	**18,300,000**	18,300,000	6,800,000	**18,300,000**	18,300,000	6,800,000
Financial Assets at Fair Value Through Profit or Loss (Notes 2 and 7)	**4,023,065**	6,875,665	15,980,647	**3,965,098**	6,873,208	15,966,898
Available-for-Sale Investments (Notes 10 and 16)	**66,997,479**	52,323,808	34,531,256	**64,764,041**	50,428,977	32,939,341
Loans and Receivables (Note 8)	**144,707,509**	126,249,035	110,315,478	**140,136,848**	122,652,951	106,541,735
Receivable from Special Purpose Vehicle (Note 9)	**–**	–	–	**–**	–	624,450
Held-to-Maturity Investments (Notes 2 and 10)	**–**	–	38,228,191	**–**	–	38,140,088
Property and Equipment (Note 11)						
At cost	**937,075**	866,013	815,497	**757,364**	676,405	658,865
At appraised value	**15,566,650**	15,698,514	15,816,443	**15,566,650**	15,698,514	15,816,443
Investments in Subsidiaries and an Associate (Note 12)	**2,905,294**	2,901,780	2,832,073	**6,776,872**	7,305,644	7,325,446
Investment Properties (Notes 13 and 32)	**14,478,348**	16,100,113	17,913,198	**14,411,199**	16,030,203	17,841,232
Deferred Tax Assets (Note 28)	**1,780,682**	1,775,789	1,829,430	**1,673,718**	1,696,698	1,738,583
Other Assets (Notes 2 and 14)	**2,994,425**	3,897,388	4,481,127	**1,859,983**	2,977,626	2,915,078
TOTAL ASSETS	**₱331,006,539**	₱312,066,639	₱297,120,028	**₱325,083,683**	₱307,440,278	₱293,082,647
LIABILITIES AND EQUITY						
LIABILITIES						
Deposit Liabilities (Notes 16 and 31)						
Demand	**₱28,152,296**	₱29,896,120	₱27,964,372	**₱28,417,452**	₱30,042,425	₱28,163,081
Savings	**192,793,260**	184,676,120	171,282,454	**192,824,803**	184,692,779	171,173,893
Time	**19,908,821**	22,961,698	27,189,058	**20,164,420**	23,726,483	27,550,759
	240,854,377	237,533,938	226,435,884	**241,406,675**	238,461,687	226,887,733
Financial Liabilities at Fair Value Through Profit or Loss (Note 17)	**6,479,821**	6,650,183	6,574,596	**6,479,821**	6,650,183	6,574,596
Bills and Acceptances Payable (Note 18)	**13,076,901**	8,458,425	12,004,138	**12,718,811**	7,318,358	12,856,661
Accrued Taxes, Interest and Other Expenses (Note 19)	**4,063,340**	3,981,218	4,324,963	**3,868,681**	3,782,934	4,108,230
Subordinated Debt (Note 20)	**9,938,816**	6,452,473	5,486,735	**9,938,816**	6,452,473	5,486,735
Other Liabilities (Notes 2 and 21)	**16,846,393**	14,015,965	13,922,126	**12,962,336**	11,471,621	10,526,803
TOTAL LIABILITIES	**291,259,648**	277,092,202	268,748,442	**287,375,140**	274,137,256	266,440,758

(Forward)

	Consolidated			Parent Company		
	December 31		January 1	December 31		January 1
	2012	2011 (As Restated - Note 2)	2011 (As Restated - Note 2)	**2012**	2011 (As Restated - Note 2)	2011 (As Restated - Note 2)
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**	₱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**	2,037,272	2,037,272
Surplus Reserves (Note 30)	**569,887**	560,216	551,947	**569,887**	560,216	551,947
Surplus (Deficit) (Notes 2 and 24)	**6,888,348**	2,246,213	(2,414,870)	**4,951,651**	406,474	(4,300,344)
Revaluation Increment on Land and Buildings (Note 11)	**2,816,962**	2,816,962	2,816,962	**2,816,962**	2,816,962	2,816,962
Accumulated Translation Adjustment (Note 12)	**(992,620)**	(451,708)	(471,975)	**(61,752)**	334,005	300,676
Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 10)	**1,037,252**	742,343	(1,199,252)	**904,686**	658,256	(1,254,461)
Equity in Net Unrealized Gain on Available-for-Sale Investment of an Associate (Note 12)	**–**	6,795	6,043	**–**	–	–
Parent Company Shares Held by a Subsidiary (Note 24)	**(4,740)**	(4,740)	(4,740)	**–**	–	–
	38,842,198	34,443,190	27,811,224	**37,708,543**	33,303,022	26,641,889
NON-CONTROLLING INTERESTS (Note 2)	**904,693**	531,247	560,362	**–**	–	–
TOTAL EQUITY	**39,746,891**	34,974,437	28,371,586	**37,708,543**	33,303,022	26,641,889
TOTAL LIABILITIES AND EQUITY	**₱331,006,539**	₱312,066,639	₱297,120,028	**₱325,083,683**	₱307,440,278	₱293,082,647

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					
	2012	2011 (As Restated - Note 2)	2010 (As Restated - Note 2)	2012	2011 (As Restated - Note 2)	2010 (As Restated - Note 2)
INTEREST INCOME ON						
Loans and receivables (Notes 8 and 31)	**₱7,451,351**	₱7,521,529	₱6,973,301	**₱7,313,933**	₱7,402,800	₱6,927,565
Trading and investment securities (Notes 7 and 10)	**3,235,754**	4,260,736	4,439,399	**3,140,385**	4,174,992	4,348,152
Deposits with banks and others (Note 31)	**659,295**	659,210	887,340	**633,710**	637,112	870,439
Interbank loans receivable	**14,207**	30,685	31,013	**14,207**	30,684	31,013
	11,360,607	12,472,160	12,331,053	**11,102,235**	12,245,588	12,177,169
INTEREST EXPENSE ON						
Deposit liabilities (Notes 16 and 31)	**3,099,782**	4,011,455	3,441,833	**3,112,516**	4,010,841	3,453,880
Bills payable and other borrowings (Notes 18 and 20)	**1,285,120**	1,257,249	1,329,743	**1,227,690**	1,215,128	1,280,781
	4,384,902	5,268,704	4,771,576	**4,340,206**	5,225,969	4,734,661
NET INTEREST INCOME	**6,975,705**	7,203,456	7,559,477	**6,762,029**	7,019,619	7,442,508
Service fees and commission income (Note 25)	**2,130,664**	2,343,990	2,447,970	**1,596,950**	1,682,802	1,754,461
Service fees and commission expense (Note 31)	**254,447**	207,387	323,468	**146,341**	127,188	205,135
NET SERVICE FEES AND COMMISSION INCOME	**1,876,217**	2,136,603	2,124,502	**1,450,609**	1,555,614	1,549,326
OTHER INCOME						
Trading and investment securities gains - net (Notes 2, 7 and 10)	**5,133,527**	3,573,057	3,080,916	**5,041,935**	3,543,435	2,983,536
Foreign exchange gains - net	**1,405,105**	1,216,328	906,846	**1,209,836**	910,719	587,461
Net gain on sale or exchange of assets (Note 25)	**359,915**	1,350,403	2,109,542	**359,915**	1,350,403	2,109,644
Miscellaneous (Notes 2, 25 and 27)	**1,842,185**	1,910,933	1,595,448	**405,445**	791,960	610,377
TOTAL OPERATING INCOME	**17,592,654**	17,390,780	17,376,731	**15,229,769**	15,171,750	15,282,852
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 26 and 31)	**3,720,882**	3,815,170	3,384,003	**3,224,217**	3,211,899	2,749,795
Taxes and licenses (Note 28)	**1,134,272**	1,319,114	1,176,401	**1,098,754**	1,280,586	1,128,921
Provision for impairment, credit and other losses (Note 15)	**933,701**	1,552,400	2,399,772	**795,106**	980,452	2,408,818
Occupancy and equipment-related costs (Note 27)	**1,004,321**	1,015,429	915,794	**801,106**	769,420	726,971
Depreciation and amortization (Note 11)	**713,235**	656,404	837,604	**642,553**	593,940	781,491
Miscellaneous (Notes 2 and 25)	**4,133,807**	3,397,219	3,706,652	**3,241,961**	2,811,978	3,135,264
TOTAL OPERATING EXPENSES	**11,640,218**	11,755,736	12,420,226	**9,803,697**	9,648,275	10,931,260
INCOME BEFORE INCOME TAX	**5,952,436**	5,635,044	4,956,505	**5,426,072**	5,523,475	4,351,592
PROVISION FOR INCOME TAX (Note 28)	**924,734**	879,352	924,218	**871,224**	808,388	692,270
NET INCOME	**₱5,027,702**	₱4,755,692	₱4,032,287	**₱4,554,848**	₱4,715,087	₱3,659,322

ATTRIBUTABLE TO:			
Equity Holders of the Parent Company (Note 29)	**₱4,651,806**	₱4,669,352	₱3,565,719
Non-controlling Interests	**375,896**	86,340	466,568
	₱5,027,702	₱4,755,692	₱4,032,287
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 29)	**₱7.02**	₱7.05	₱5.38

See accompanying Notes to Financial Statements.

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

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011 (As Restated - Note 2)	2010 (As Restated - Note 2)	**2012**	2011 (As Restated - Note 2)	2010 (As Restated - Note 2)
NET INCOME	**₱5,027,702**	₱4,755,692	₱4,032,287	**₱4,554,848**	₱4,715,087	₱3,659,322
OTHER COMPREHENSIVE INCOME (LOSS)						
Accumulated translation adjustment	**(540,912)**	20,267	12,844	**(395,757)**	33,329	210,191
Net unrealized gain (loss) on available-for-sale investments (Note 10)	**294,909**	1,941,595	(315,099)	**246,430**	1,912,717	(326,044)
Share in equity adjustments of an associate (Note 12)	**(6,795)**	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	**(252,798)**	1,962,614	(208,397)	**(149,327)**	1,946,046	(28,038)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱4,774,904**	₱6,718,306	₱3,823,890	**₱4,405,521**	₱6,661,133	₱3,631,284
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱4,399,008**	₱6,631,966	₱3,357,322			
Non-controlling Interests	**375,896**	86,340	466,568			
	₱4,774,904	₱6,718,306	₱3,823,890			

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)** (As Restated - Notes 2 and 24)	**Revaluation Increment on Land and Buildings** (Note 11)	**Accumulated Translation Adjustment** (Note 12)	**Net Unrealized Gain (Loss) on Available-for-Sale Investments** (As Restated Notes 2 and 10)	**Share in Equity Adjustment of an Associate** (Note 12)	**Parent Company Shares Held by a Subsidiary** (Note 24)	**Total**	**Non-controlling Interest** (As Restated - Note 2)	**Total Equity**
Balance at January 1, 2012, as previously reported	**₱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**
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	–	–	–	**(4,701,171)**	–	–	**(30,479)**	–	–	**(4,731,650)**	**484,361**	**(4,247,289)**
Balance at January 1, 2012, as restated	**26,489,837**	**2,037,272**	**560,216**	**2,246,213**	**2,816,962**	**(451,708)**	**742,343**	**6,795**	**(4,740)**	**34,443,190**	**531,247**	**34,974,437**
Total comprehensive income (loss) for the year	–	–	–	**4,651,806**	–	**(540,912)**	**294,909**	**(6,795)**	–	**4,399,008**	**375,896**	**4,774,904**
Declaration of dividends	–	–	–	–	–	–	–	–	–	–	**(2,450)**	**(2,450)**
Transfer to surplus reserves (Note 30)	–	–	**9,671**	**(9,671)**	–	–	–	–	–	–	–	–
Balance at December 31, 2012	**₱26,489,837**	**₱2,037,272**	**₱569,887**	**₱6,888,348**	**₱2,816,962**	**(₱992,620)**	**₱1,037,252**	**₱–**	**(₱4,740)**	**₱38,842,198**	**₱904,693**	**₱39,746,891**
Balance at January 1, 2011, as previously reported	₱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
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	–	–	–	(5,506,424)	–	–	–	–	–	(5,506,424)	406,474	(5,099,950)
Balance at January 1, 2011, as restated	26,489,837	2,037,272	551,947	(2,414,870)	2,816,962	(471,975)	(1,199,252)	6,043	(4,740)	27,811,224	560,362	28,371,586
Total comprehensive income for the year	–	–	–	4,669,352	–	20,267	1,941,595	752	–	6,631,966	86,340	6,718,306
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	₱2,246,213	₱2,816,962	(₱451,708)	₱742,343	₱6,795	(₱4,740)	₱34,443,190	₱531,247	₱34,974,437
Balance at January 1, 2010 , as previously reported	₱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
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	–	–	–	(6,400,804)	–	–	–	–	–	(6,400,804)	(39,705)	(6,440,509)
Balance at January 1, 2010, as restated	26,489,837	2,037,272	546,797	(5,975,439)	2,729,147	(484,819)	(884,153)	–	(4,740)	24,453,902	93,794	24,547,696
Total comprehensive income (loss) for the year	–	–		3,565,719	87,815	12,844	(315,099)	6,043	–	3,357,322	466,568	3,823,890
Transfer to surplus reserves (Note 30)	–	–	5,150	(5,150)	–	–	–	–	–	–	–	–
Balance at December 31, 2010	₱26,489,837	₱2,037,272	₱551,947	(₱2,414,870)	₱2,816,962	(₱471,975)	(₱1,199,252)	₱6,043	(₱4,740)	₱27,811,224	₱560,362	₱28,371,586

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)** (As Restated - Notes 2 and 24)	**Revaluation Increment on Land and Buildings** (Note 11)	**Accumulated Translation Adjustment** (Note 12)	**Net Unrealized Gain (Loss) on AFS Investments** (As Restated - Notes 2 and 10)	**Total Equity**
Balance at January 1, 2012, as previously reported	**₱26,489,837**	**₱2,037,272**	**₱560,216**	**₱5,107,645**	**₱2,816,962**	**₱334,005**	**₱688,735**	**₱38,034,672**
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	–	–	–	**(4,701,171)**	–	–	**(30,479)**	**(4,731,650)**
Balance at January 1, 2012, as restated	**26,489,837**	**2,037,272**	**560,216**	**406,474**	**2,816,962**	**334,005**	**658,256**	**33,303,022**
Total comprehensive income (loss) for the year	–	–	–	**4,554,848**	–	**(395,757)**	**246,430**	**4,405,521**
Transfer to surplus reserves (Note 30)	–	–	**9,671**	**(9,671)**	–	–	–	–
Balance at December 31, 2012	**₱26,489,837**	**₱2,037,272**	**₱569,887**	**₱4,951,651**	**₱2,816,962**	**(₱61,752)**	**₱904,686**	**₱37,708,543**
Balance at January 1, 2011, as previously reported	₱26,489,837	₱2,037,272	₱551,947	₱1,206,080	₱2,816,962	₱300,676	(₱1,254,461)	₱32,148,313
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	–	–	–	(5,506,424)	–	–	–	(5,506,424)
Balance at January 1, 2011, as restated	26,489,837	2,037,272	551,947	(4,300,344)	2,816,962	300,676	(1,254,461)	26,641,889
Total comprehensive income for the year	–	–	–	4,715,087	–	33,329	1,912,717	6,661,133
Transfer to surplus reserves (Note 30)	–	–	8,269	(8,269)	–	–	–	–
Balance at December 31, 2011	₱26,489,837	₱2,037,272	₱560,216	₱406,474	₱2,816,962	₱334,005	₱658,256	₱33,303,022
Balance at January 1, 2010, as previously reported	₱26,489,837	₱2,037,272	₱546,797	(₱1,553,712)	₱2,729,147	₱90,485	(₱928,417)	₱29,411,409
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	–	–	–	(6,400,804)	–	–	–	(6,400,804)
Balance at January 1, 2010, as restated	26,489,837	2,037,272	546,797	(7,954,516)	2,729,147	90,485	(928,417)	23,010,605
Total comprehensive income (loss) for the year	–	–	–	3,659,322	87,815	210,191	(326,044)	3,631,284
Transfer to surplus reserves (Note 30)	–	–	5,150	(5,150)	–	–	–	–
Balance at December 31, 2010	₱26,489,837	₱2,037,272	₱551,947	(₱4,300,344)	₱2,816,962	₱300,676	(₱1,254,461)	₱26,641,889

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011 (As Restated – Note 2)	2010 (As Restated - Note 2)	**2012**	2011 (As Restated – Note 2)	2010 (As Restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱5,952,436**	₱5,635,044	₱4,956,505	**₱5,426,072**	₱5,523,475	₱4,351,592
Adjustments for:						
Realized trading gain on available-for-sale (AFS) investments (Note 10)	**(4,287,934)**	(3,596,089)	(1,185,384)	**(4,205,426)**	(3,566,589)	(1,088,004)
Provision for impairment, credit and other losses (Note 15)	**933,701**	1,552,400	2,399,772	**795,106**	980,452	2,408,818
Amortization of premium (discount)	**(717,699)**	47,419	164,586	**(714,460)**	59,323	164,585
Depreciation and amortization (Note 11)	**713,235**	656,404	837,604	**642,553**	593,940	781,491
Net gain on sale or exchange of assets (Note 25)	**(359,915)**	(1,350,403)	(2,109,542)	**(359,915)**	(1,350,403)	(2,109,644)
Loss (gain) on mark-to-market of financial liability designated at fair value through profit or loss (FVPL) (Note 10)	**(283,099)**	(37,575)	206,921	**(283,099)**	(37,575)	206,921
Amortization of software costs (Note 14)	**153,550**	162,167	156,708	**151,126**	158,528	153,774
Loss (gain) on mark-to-market of derivatives (Note 10)	**(81,510)**	34,339	(1,157,934)	**(81,510)**	34,337	(1,157,934)
Amortization of transaction costs (Notes 16 and 20)	**21,733**	32,561	24,555	**21,733**	32,561	24,555
Share in net income of an associate (Note 12)	**(10,309)**	(68,955)	(45,065)	**–**	–	–
Divident income	**(2,418)**	(1,680)	(2,515)	**(25,219)**	(231,576)	(216,824)
Realized trading gain on sale of held-to-maturity (HTM) investments (Note 10)	**–**	(141,274)	–	**–**	(141,274)	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Financial assets at FVPL	**3,046,847**	9,183,807	(4,672,482)	**3,102,357**	9,130,070	(4,255,745)
Loans and receivables	**(19,929,523)**	(17,865,535)	(10,360,863)	**(18,931,030)**	(17,115,760)	(11,634,727)
Other assets	**765,107**	(334,095)	475,745	**1,110,302**	(172,018)	(302,559)
Increase in amounts of:						
Deposit liabilities	**3,310,937**	11,083,477	12,113,895	**2,935,486**	11,559,377	11,987,991
Accrued taxes, interest and other expenses	**(147,858)**	(1,082,297)	(734,664)	**159,300**	(901,780)	(750,286)
Other liabilities	**2,267,658**	804,009	(402,044)	**656,456**	1,462,355	(208,930)
Net cash generated from (used in) operations	**(8,655,061)**	4,713,724	665,798	**(9,600,168)**	6,017,443	(1,644,926)
Income taxes paid	**(974,179)**	(856,916)	(882,553)	**(900,935)**	(743,275)	(627,352)
Dividends received	**2,418**	1,680	2,515	**25,219**	231,576	216,824
Net cash provided by (used in) operating activities	**(9,626,822)**	3,858,488	(214,240)	**(10,475,884)**	5,505,744	(2,055,454)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of:						
AFS investments	**244,636,344**	185,507,498	91,758,000	**239,720,794**	185,348,678	88,102,092
Investment properties	**2,669,604**	3,909,976	2,118,101	**2,727,503**	3,505,960	2,127,958
Property and equipment	**300,107**	121,959	60,874	**285,389**	95,542	3,793
Proceeds from maturity of held-to-maturity (HTM) investments	**–**	2,611,603	3,527,895	**–**	2,611,603	3,522,783
Proceeds from sale of HTM investments	**–**	2,586,113	–	**–**	2,586,113	–
Collection of receivables from SPV	**–**	–	–	**575,000**	–	–

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011	2010 (As Restated - Note 2)	**2012**	2011	2010 (As Restated - Note 2)
Proceeds from redemption of placements with the Bangko Sentral ng Pilipinas (BSP) (Note 33)	**₱20,200,000**	₱9,800,000	₱–	**₱20,200,000**	₱9,800,000	₱–
Placements with the BSP (Note 33)	–	(20,200,000)	(9,800,000)	–	(20,200,000)	(9,800,000)
Acquisition of:						
AFS investments	**(254,009,801)**	(164,299,207)	(108,772,041)	**(248,911,324)**	(164,006,652)	(105,111,187)
Property and equipment (Note 11)	**(704,327)**	(512,048)	(461,962)	**(636,651)**	(413,451)	(312,036)
Software cost (Note 14)	**(120,215)**	(69,122)	(129,563)	**(119,576)**	(66,416)	(124,941)
Additional investments in subsidiaries/associate (Note 12)	–	–	–	–	(115,455)	(125,749)
Closure of subsidiaries	–	–	–	**32,042**	64,447	–
Net cash provided by (used in) investing activities	**12,971,712**	19,456,772	(21,698,696)	**13,873,177**	19,210,369	(21,717,287)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills and acceptances payable	**48,061,417**	40,190,569	35,938,506	**47,023,325**	36,695,559	34,276,511
Proceeds from issuance of subordinated debt	**3,474,112**	6,447,754	–	**3,474,112**	6,447,754	–
Settlement of bills and acceptances payable	**(43,442,941)**	(43,736,282)	(31,737,511)	**(41,622,872)**	(42,233,862)	(28,281,013)
Redemption of subordinated debt (Note 20)	–	(5,500,000)	–	–	(5,500,000)	–
Acquisition of non-controlling interest	–	(115,455)	–	–	–	–
Net cash provided by (used in) financing activities	**8,092,588**	(2,713,414)	4,200,995	**8,874,565**	(4,590,549)	5,995,498
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**11,437,478**	20,601,846	(17,711,941)	**12,271,858**	20,125,564	(17,777,243)
CASH AND CASH EQUIVALENTS AT BEGINNING 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	**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
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**5,599,088**	5,404,110	5,457,186	**5,548,325**	5,303,112	5,309,611
Due from BSP (Note 33)	**37,175,399**	17,952,795	14,485,986	**36,531,047**	17,292,594	14,473,986
Due from other banks	**4,042,769**	6,423,981	5,141,549	**3,293,782**	4,906,698	3,945,632
Interbank loans receivable	**11,498,756**	17,097,648	12,691,967	**11,498,756**	17,097,648	12,245,259
Securities held under agreements to resell	**18,300,000**	18,300,000	6,800,000	**18,300,000**	18,300,000	6,800,000
	₱76,616,012	₱65,178,534	₱44,576,688	**₱75,171,910**	₱62,900,052	₱42,774,488
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱4,381,425**	₱5,416,185	₱4,631,613	**₱4,332,906**	₱5,373,255	₱4,592,781
Interest received	**12,232,534**	12,938,408	12,754,383	**11,978,131**	12,712,686	12,249,169
Dividends received	**2,418**	1,680	2,515	**25,219**	231,576	216,824

See accompanying Notes to Financial Statements.

1. **Corporate Information**

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Philippine Securities and Exchange Commission (SEC) approved the Parent Company's application to extend its corporate term for another 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City. As of December 31, 2012, the companies and persons affiliated/associated with the Lucio Tan Group (LTG) remain the majority shareholder of the Parent Company at 68.85% and the remaining 31.15% is held by the public. As of December 31, 2011, 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, respectively.

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 338 domestic and 13 overseas branches and offices as of December 31, 2012 and 331 domestic and 13 overseas branches and offices as of December 31, 2011. The Parent Company's international subsidiaries have a network of 65 offices as of December 31, 2012 and 70 offices as of December 31, 2011 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 Bangko Sentral ng Pilipinas (BSP).

Merger with Allied Banking Corporation

On March 6, 2012, the Parent Company held a 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 and will be effected via a share-for-share exchange. Under the approved amended terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company shares for every ABC common share and 22.763 Parent Company shares for every ABC preferred share. On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors of the Parent Company and of ABC on January 22 and 23, 2013, respectively. Refer to Note 35 (Events after reporting date) for the details.

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 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

First-Time Adoption of PFRS
These financial statements, for the year ended December 31, 2012 are the first the Group has prepared in accordance with PFRS. For periods up to and including the year ended December 31, 2011, the Group prepared its financial statements in accordance with accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks).

Accordingly, the Group has prepared financial statements which comply with PFRS applicable for periods ending on or after December 31, 2012, together with the comparative periods as of and for the years ended December 31, 2011 and 2010, as described in the summary of significant accounting policies. The Group applied PFRS 1, First-Time Adoption of PFRS, in preparing the accompanying financial statements. In preparing these financial statements, the Group's opening statement of financial position was prepared as of January 1, 2010, the Group's date of transition to PFRS.

Philippine GAAP for banks mainly differs from PFRS on the reclassification as permitted by the BSP for prudential regulation and the SEC for financial reporting purposes in October 2008, of certain investments in Republic of the Philippines (ROP) credit-linked notes that were permitted to be reclassified out of Financial Assets at FVPL or AFS investments to Loans and Receivable or HTM investments without bifurcating the embedded derivatives from the host instrument. Prior to to the adoption of PFRS, HTM investments of the Group includes investments in ROP credit-linked notes where the related embedded derivatives have not been bifurcated.

Upon the adoption of PFRS, the Group bifurcated the credit derivatives embedded in ROP credit-linked notes classified as HTM Investments as required by Philippine Accounting Standards (PAS) 39, Financial Instruments: Recognition and Measurement. The effect of this adjustment resulted in the recognition of a derivative asset (included in Financial Assets at FVPL) amounting to ₱64.0 million and derivative liability (included in Financial Liability at FVPL) amounting to, ₱16.2 million, decrease in HTM investments and increase in Surplus amounting to ₱12.5 million and ₱35.4 million, respectively, as of January 1, 2010.

In 2011, the Parent Company bifurcated the credit derivatives when it reclassified the HTM investments to AFS investments. Had the Parent Company bifurcated the embedded derivatives prior to the reclassification date of the HTM investments to AFS investments, net unrealized gain on AFS investments in 2011 should have been reduced by ₱30.5 million.

The transition from Philippine GAAP for banks to PFRS has not had a material impact on the statements of cash flows.

Estimates under PFRS at transition date
The estimates as at January 1, 2010 are consistent with those made for the same dates in accordance with Philippine GAAP for banks.

Exemptions from other IFRSs
Under PFRS 1, an entity may elect to use one or more exemptions contained in PFRS 1 which are meant to ease the burden of first-time adoption that might otherwise occur when applying all PFRSs fully retrospectively. The following exemptions were applicable to the Group:

Employee benefits
PFRS 1 permits entities to recognise all actuarial gains and losses at the date of transition to PFRS in opening statement of financial position retained earnings. This election is available regardless of which policy the entity chooses for recognition of actuarial gains and losses after first-time adoption (use of a 'corridor' approach). However, past service costs are not covered by this exemption.

At transition date, the Group has not applied this exemption.

Cumulative translation difference
There is an exemption from calculating the cumulative translation differences on the translation of the net assets of foreign subsidiaries at the date of transition. If elected, the cumulative translation differences for all foreign operations are deemed to be zero at the transition date.

At transition date, the Group has not applied this exemption.

Prior Period Adjustments
Sale of NPAs to SPV companies
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 BSP for banks and financial institutions availing of the provisions of RA No. 9182, the losses from the sale of the NPAs to the SPV companies were deferred and are being amortized over a ten-year period. As of January 1, 2012, 2011 and 2010, the deferred losses from the sale of NPAs to SPV companies amounted to ₱2.6 billion, ₱3.1 billion and ₱3.7 billion, respectively.

In 2006 and 2007, the Parent Company sold Opal Portfolio Investments (SPV-AMC), Inc. (OPII) and certain NPAs, under a transaction that qualified and was approved by the BSP, as a legal true sale. The losses from the sale of the NPAs were again deferred by the Parent Company. As of January 1, 2012, 2011 and 2010, the deferred losses from the sale of the NPAs to OPII amounted to ₱2.1 billion, ₱2.5 billion and ₱2.8 billion, respectively.

In 2012, the Parent Company restated its 2011 and 2010 financial statements to recognize the losses from the sale of NPAs to SPVs in the years the NPAs were sold as required by PFRS.

Consolidation of OPII
As discussed above, the Parent Company sold OPII and certain NPAs, under a transaction that qualified and was approved by the BSP, as a legal true sale. 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 accounts of OPII should have been consolidated into the Group's accounts. Prior to 2012, the accounts of OPII were not consolidated.

In 2012, the Group restated its 2011 and 2010 financial statements to consolidate the accounts of OPII. The consolidation of the accounts of OPII into the Group accounts resulted in an increase in other assets, other liabilities and non-controlling interests by ₱514.0 million, ₱29.6 million and ₱484.4 million as of January 1, 2012; ₱493.1 million, ₱86.6 million and ₱406.5 million as of January 1, 2011; and ₱1.3 billion, ₱1.3 billion and (₱39.7 million) as of January 1, 2010, respectively. Other income, other expense, provision for income tax and income attributable to non-controlling interests increased by ₱762.8 million, ₱109.2 million, ₱33.0 million and ₱77.9 million in 2011 and ₱942.3 million, ₱95.5 million, ₱157.6 million and ₱446.2 million in 2010, respectively.

The following summarizes the specific impact of PFRS adoption and the prior period adjustments.

Surplus (Deficit) - Consolidated	Other Financial Statement Item Affected	January 1 2012	2011	2010
As previously reported		₱6,947,384	₱3,091,554	₱425,365
To recognize fair value changes of credit derivatives embedded in credit linked notes	Financial Assets at FVPL	–	85,621	35,353
To reverse gain from reclassification of credit linked notes from HTM investments to AFS investments	Unrealized gain on AFS	30,476	–	–
As restated but before prior period adjustments		6,977,860	3,177,175	460,718
To write-off deferred losses on NPAs sold to OPII	Other Assets - Deferred Charges	(2,141,919)	(2,466,434)	(2,774,663)
To write-off deferred losses on NPAs sold to other SPV companies	Other Assets - Deferred Charges	(2,589,728)	(3,125,611)	(3,661,494)
		₱2,246,213	(₱2,414,870)	(₱5,975,439)

Surplus (Deficit) - Parent Company	Other Financial Statement Item Affected	January 1 2012	2011	2010
As previously reported		₱5,107,645	₱1,206,080	(₱1,553,712)
To recognize fair value changes of credit derivatives embedded in credit linked notes	Financial Assets at FVPL	–	85,621	35,353
To reverse gain from reclassification of credit linked notes from HTM investments to AFS investments	Unrealized gain on AFS	30,476	–	–
As restated but before prior period adjustments		5,138,121	1,291,701	(1,518,359)
To write-off deferred losses on NPAs sold to OPII	Other Assets - Deferred Charges	(2,141,919)	(2,466,434)	(2,774,663)
To write-off deferred losses on NPAs sold to other SPV companies	Other Assets - Deferred Charges	(2,589,728)	(3,125,611)	(3,661,494)
		₱406,474	(₱4,300,344)	(₱7,954,516)

Net Income	Consolidated 2011	2010	Parent Company 2011	2010
As previously reported	₱3,872,552	₱2,691,728	3,909,834	₱2,764,942
To recognize fair value changes of credit derivatives embedded in credit linked notes	(55,145)	50,268	(55,145)	50,268
As restated but before prior period adjustments	3,817,407	2,741,996	3,854,689	2,815,210
To reverse amortization of deferred losses	860,398	844,112	860,398	844,112
To recognize net income of SPV companies	77,887	446,179	–	–
As restated	₱4,755,692	₱4,032,287	₱4,715,087	₱3,659,322

Basis of Consolidation

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

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

[a] Owned through PNB Holdings
[b] Owned through PNB IIC
[c] Owned through PNB RCI Holding Co. Ltd.
[d] Owned through Japan - PNB Leasing
* In 2011, the Group acquired additional 30% interest in Japan-PNB Leasing (see Note 12). The Group's ownership interest in Japan-PNB Leasing in 2010 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, 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. The assets, liabilities and equity of the SPV were recognized under Other Assets, Other Liabilities and Non-controlling Interests, respectively, in the consolidated statement of financial position. Income, expenses and net income of the SPV were recognized under miscellaneous income, miscellaneous expenses and non-controlling interest, respectively, in the statement of income.

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.

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. 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, credit and other 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 liabilities
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, credit and other 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, credit and other 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.

Expenses
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 Group has elected to transfer the revaluation increment to Surplus, in full, upon disposal of the asset.

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.

<u>Investment Properties</u>
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 under 'Net gain on sale or exchange of assets'. 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 amortization method are reviewed periodically to ensure that the period and the method of amortization are consistent with the expected pattern of economic benefits from the software.

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 irrespective of any impairment indicators 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.

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 to peso.

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

Future Changes in Accounting Policies

The Group will adopt the 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

PFRS 7*, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
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 and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

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 to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The 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 using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

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

The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs 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. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The Group is currently assessing the impact of adopting this standard.

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

PAS 19, *Employee Benefits* (Revised)
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 rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Parent Company reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Parent Company obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	December 31 2012	2011	January 1, 2011
Increase (decrease) in the statement of financial position:			
Net retirement liability	₱436,548	₱672,975	(₱380,538)
Other comprehensive income	(773,837)	(1,000,543)	–
Surplus	337,289	327,569	380,538
Increase (decrease) in the statement of income:			
Net retirement expense (included in 'Compensation and fringe benefits')	(9,721)	52,970	
Net income	9,721	(52,970)	
Basic earnings per share	0.01	(0.06)	
Diluted earnings per share	0.01	(0.06)	
Increase (decrease) in the statement of other comprehensive income:			
Remeasurement of defined benefit obligation	(226,706)	(1,000,543)	

The Group is still in the process of quantifying the impact to consolidated financial statements upon the adoption of the standard which it expects will not be material.

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, 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 the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the

separate financial statements of the entities in the Group. 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 issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, 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.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Group expects that this interpretation will not have any impact on its financial position or performance. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments 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. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The

adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, Group is still evaluating the effects of the adoption of PFRS 9.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

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 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 (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

***Annual Improvements to PFRSs* (2009-2011 cycle)**
The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 16*, Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

PAS 32*, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.

PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

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*
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, 2012 and 2011, unquoted AFS equity securities amounted to ₱78.6 million and ₱161.9 million, respectively, for the Group, and 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, 2012 and 2011, 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, 2012 and 2011, allowance for impairment losses on AFS equity investments amounted to ₱928.4 million and ₱927.5 million, respectively, for the Group and 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, 2012 and 2011 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, 2012 and 2011, the present value of the defined benefit obligation of the Parent Company amounted to ₱3.1 billion and ₱2.8 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, 2012. 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, other properties acquired and software cost.

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

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

4. Financial Risk Management Objectives and Policies

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

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

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

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

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

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

The main types of collateral obtained are as follows:

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

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

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

Credit risk exposures
The table below shows the maximum exposure for loans and receivable to credit risk (amounts in millions):

	Consolidated			
	December 31, 2012		December 31, 2011	
	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**	**₱–**	₱18,300	₱–
Loans and receivables:				
Receivable from customers*:				
Business loans	**83,382**	**55,577**	67,327	42,824
GOCCs and National Government Agencies (NGAs)	**24,410**	**17,179**	27,774	27,753
LGUs	**7,157**	**6,288**	5,900	4,794
Consumers	**11,197**	**4,757**	7,522	2,356
Fringe benefits	**644**	**169**	697	178
Unquoted debt securities	**3,859**	**1,118**	4,589	1,662
Other receivable	**14,057**	**10,927**	12,440	9,288
	₱163,006	**₱96,015**	₱144,549	₱88,855

*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			
	December 31, 2012		December 31, 2011	
	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**	**₱–**	₱18,300	₱–
Loans and receivables:				
Receivable from customers*:				
Business loans	**80,968**	**55,877**	65,641	41,146
GOCCs and National Government Agencies (NGAs)	**24,410**	**17,179**	27,774	27,753
LGUs	**7,157**	**6,288**	5,900	4,794
Consumers	**11,102**	**4,751**	7,418	2,337
Fringe benefits	**630**	**165**	687	168
Unquoted debt securities	**3,859**	**1,118**	4,589	1,662
Other receivable	**12,009**	**8,879**	10,643	7,492
	₱158,435	**₱94,257**	₱140,952	₱85,352

*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, 2012 and 2011, fair value of collateral held for loans and receivables amounted to ₱234.7 billion and ₱191.0 billion, respectively, for the Group and ₱231.9 billion and ₱190.7 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, 2012 and 2011.

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		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)	**December31, 2012**	December 31, 2011	January 1, 2011 (As Restated)
Philippines	**₱267,338**	₱246,095	₱213,795	**₱261,071**	₱241,797	₱210,619
USA and Canada	**4,238**	13,430	15,224	**2,976**	11,026	12,875
Asia (excluding the Philippines)	**6,107**	4,124	3,862	**5,653**	3,551	3,386
United Kingdom	**5,355**	2,972	8,919	**5,113**	2,678	7,924
Other European Union Countries	**3,706**	829	8,647	**3,676**	727	8,522
Middle East	**2**	6	1,360	**2**	6	1,360
	₱286,746	₱267,456	₱251,807	**₱278,491**	₱259,785	₱244,686

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

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011	January 1, 2011 (As Restated)
Loans and Receivables						
Receivable from customers:						
Primary target industry:						
Public administration and defense	**₱22,623**	₱21,526	₱7,951	**₱22,595**	₱21,526	₱7,668
Wholesale and retail	**20,682**	20,490	23,368	**20,378**	20,260	23,165
Transport, storage and communication	**16,335**	16,574	11,397	**16,034**	16,026	12,991
Electricity, gas and water	**18,104**	14,504	12,991	**18,104**	14,504	11,397
Manufacturing	**11,637**	11,153	10,613	**10,984**	10,572	9,960
Financial intermediaries	**10,172**	5,550	3,986	**10,158**	5,519	3,857
Agriculture, hunting and forestry	**2,774**	2,564	3,194	**2,580**	2,496	3,153
Secondary target industry:						
Real estate, renting and business activities	**9,898**	7,088	7,160	**9,859**	7,073	6,347
Construction	**2,345**	1,158	786	**2,145**	988	786
Others*	**12,222**	8,613	7,875	**11,432**	8,456	8,300
Unquoted debt securities:						
Government	**3,699**	3,799	6,623	**3,699**	3,799	6,623
Financial intermediaries	**–**	400	329	**–**	400	329
Manufacturing	**160**	390	674	**160**	390	674
	3,859	4,589	7,626	**3,859**	4,589	7,626
Other receivables	**14,057**	12,440	13,368	**12,009**	10,644	11,292
	144,708	126,249	110,315	**140,137**	122,653	106,542
Trading and Financial Investment Securities						
Government	**57,865**	44,896	69,907	**56,159**	43,494	68,708
Financial intermediaries	**7,096**	9,456	17,006	**6,807**	9,422	16,944
Others	**2,352**	2,021	1,742	**2,176**	1,559	1,312
Electricity, gas and water	**2,461**	1,632	26	**2,451**	1,632	26
Real estate, renting and business activities	**1,225**	1,154	–	**1,118**	1,154	–
Manufacturing	**22**	41	59	**19**	41	56
	71,021	59,200	88,740	**68,730**	57,302	87,046
Other Financial Assets**						
Financial intermediaries	**71,016**	79,974	32,421	**69,623**	77,797	35,322
Government	**–**	–	20,331	**–**	–	15,776
Others	**1**	2,033	–	**1**	2,033	–
	71,017	82,007	52,752	**69,624**	79,830	51,098
	₱286,746	₱267,456	₱251,807	**₱278,491**	₱259,785	₱244,686

* 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 from 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 Group's and 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, 2012 and 2011 (in millions).

	Consolidated		
	December 31, 2012		
	Neither Past Due nor Individually Impaired	**Past Due or Individually Impaired**	**Total**
Rated Receivable from Customers			
1 – Excellent	**₱10,948**	**₱–**	**₱10,948**
2 – Super Prime	**33,489**	–	**33,489**
3 – Prime	**11,261**	–	**11,261**
4 – Very Good	**6,418**	–	**6,418**
5 – Good	**16,464**	**2**	**16,466**
6 – Satisfactory	**4,897**	–	**4,897**
7 – Average	**7,057**	**19**	**7,076**
8 – Fair	**2,646**	**1**	**2,647**
9 – Marginal	**1,820**	**5**	**1,825**
10 – Watchlist	**4,353**	**6**	**4,359**
11 – Special Mention	**2,321**	**9**	**2,330**
12 – Substandard	**271**	**764**	**1,035**
13 – Doubtful	–	**2,449**	**2,449**
14 – Loss	–	**2,665**	**2,665**
	101,945	**5,920**	**107,865**
Unrated Receivable from Customers			
Business Loans	**2,562**	**237**	**2,799**
GOCCs and NGAs	**1,391**	**1,651**	**3,042**
LGUs	**6,868**	**419**	**7,287**
Consumers	**10,687**	**770**	**11,457**
Fringe Benefits	**622**	**37**	**659**
	22,130	**3,114**	**25,244**
	₱124,075	**₱9,034**	**₱133,109**

	Consolidated		
	December 31, 2011		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
Rated Receivable from Customers			
1 – Excellent	₱6,302	₱–	₱6,302
2 – Super Prime	23,192	–	23,192
3 – Prime	4,924	–	4,924
4 – Very Good	7,105	–	7,105
5 – Good	14,587	73	14,660
6 – Satisfactory	9,102	4	9,106
7 – Average	1,552	15	1,567
8 – Fair	4,342	14	4,356
9 – Marginal	1,316	20	1,336
10 – Watchlist	1,198	7	1,205
11 – Special Mention	147	45	192
12 – Substandard	488	448	936
13 – Doubtful	–	2,495	2,495
14 – Loss	–	2,788	2,788
	74,255	5,909	80,164
Unrated Receivable from Customers			
Business Loans	6,460	349	6,809
GOCCs and NGAs	12,168	1,763	13,931
LGUs	5,576	398	5,974
Consumers	7,162	798	7,960
Fringe Benefits	652	60	712
	32,018	3,368	35,386
	₱106,273	₱9,277	₱115,550

	Parent Company		
	December 31, 2012		
	Neither Past Due nor Individually Impaired	**Past Due or Individually Impaired**	**Total**
Rated Receivable from Customers			
1 – Excellent	**₱10,948**	**₱–**	**₱10,948**
2 – Super Prime	**33,489**	**–**	**33,489**
3 – Prime	**11,261**	**–**	**11,261**
4 – Very Good	**6,418**	**–**	**6,418**
5 – Good	**16,464**	**2**	**16,466**
6 – Satisfactory	**5,461**	**–**	**5,461**
7 – Average	**4,250**	**19**	**4,269**
8 – Fair	**2,646**	**1**	**2,647**
9 – Marginal	**1,820**	**5**	**1,825**
10 – Watchlist	**4,353**	**6**	**4,359**
11 – Special Mention	**2,321**	**9**	**2,330**
12 – Substandard	**271**	**578**	**849**
13 – Doubtful	**–**	**2,449**	**2,449**
14 – Loss	**–**	**2,658**	**2,658**
	99,702	**5,727**	**105,429**
Unrated Receivable from Customers			
Business Loans	**2,230**	**237**	**2,467**
GOCCs and NGAs	**1,391**	**1,651**	**3,042**
LGUs	**6,868**	**419**	**7,287**
Consumers	**10,595**	**752**	**11,347**
Fringe Benefits	**608**	**37**	**645**
	21,692	**3,096**	**24,788**
	₱121,394	**₱8,823**	**₱130,217**

	Parent Company		
	December 31, 2011		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
Rated Receivable from Customers			
1 – Excellent	₱6,302	₱–	₱6,302
2 – Super Prime	23,192	–	23,192
3 – Prime	4,924	–	4,924
4 – Very Good	7,704	–	7,704
5 – Good	14,587	73	14,660
6 – Satisfactory	9,102	4	9,106
7 – Average	1,552	15	1,567
8 – Fair	4,342	14	4,356
9 – Marginal	1,316	20	1,336
10 – Watchlist	1,199	7	1,206
11 – Special Mention	147	45	192
12 – Substandard	488	381	869
13 – Doubtful	–	2,495	2,495
14 – Loss	–	2,780	2,780
	74,855	5,834	80,689
Unrated Receivable from Customers			
Business Loans	3,768	349	4,117
GOCCs and NGAs	12,168	1,763	13,931
LGUs	5,576	398	5,974
Consumers	7,053	739	7,792
Fringe Benefits	642	60	702
	29,207	3,309	32,516
	₱104,062	₱9,143	₱113,205

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 (in millions).

	Consolidated			
	December 31, 2012			
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**Total**
Consumers	**₱53**	**₱57**	**₱211**	**₱321**
Business loans	**6**	**39**	**460**	**505**
LGUs	**133**	**–**	**–**	**133**
GOCCs and NGAs	**–**	**–**	**–**	**–**
Fringe benefits	**1**	**1**	**12**	**14**
Total	**₱193**	**₱97**	**₱683**	**₱973**

	Consolidated			
	December 31, 2011			
	Less than 30 days	31 to 90 days	91 to 180 days	Total
Consumers	₱4	₱14	₱358	₱376
Business loans	77	58	753	888
LGUs	85	–	10	95
GOCCs and NGAs	–	–	2	2
Fringe benefits	–	–	15	15
Total	₱166	₱72	₱1,138	₱1,376

	Parent Company			
	December 31, 2012			
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**Total**
Consumers	**₱51**	**₱57**	**₱211**	**₱319**
Business loans	**6**	**39**	**267**	**312**
LGUs	**133**	**–**	**–**	**133**
GOCCs and NGAs	**–**	**–**	**–**	**–**
Fringe benefits	**1**	**1**	**12**	**14**
Total	**₱191**	**₱97**	**₱490**	**₱778**

	Parent Company			
	December 31, 2011			
	Less than 30 days	31 to 90 days	91 to 180 days	Total
Consumers	₱4	₱14	₱358	₱376
Business loans	74	52	737	863
LGUs	85	–	10	95
GOCCs and NGAs	–	–	2	2
Fringe benefits	–	–	15	15
Total	₱163	₱66	₱1,122	₱1,351

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

	Consolidated					
	December 31, 2012					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱37,175	₱37,175
Due from other banks	899	1,316	973	3,188	855	4,043
Interbank loans receivables	2,143	6,730	1,847	10,720	779	11,499
Securities held under agreements to resell[2/]	–	–	–	–	18,300	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	907	907	1,064	1,971
Derivative assets[3/]	2	274	114	390	65	455
Equity securities	–	–	–	–	250	250
Private debt securities	–	–	–	–	99	99
Designated at FVPL:						
Private debt securities	–	–	–	–	1,248	1,248
Loans and receivables:						
Unquoted debt securities[4/]	–	–	31	31	3,828	3,859
Others[5/]	–	–	–	–	14,057	14,057
AFS investments:						
Government securities	748	–	44,771	45,519	10,039	55,558
Other debt securities	1,434	–	3,255	4,689	6,231	10,920
Quoted equity securities	13	–	134	147	293	440
Unquoted equity securities	–	–	–	–	79	79
Miscellaneous COCI	–	–	–	–	1	1

	Consolidated					
	December 31, 2011					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱38,153	₱38,153
Due from other banks	2,086	2,830	1,132	6,048	376	6,424
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	–	–	–	–	175	175
Private debt securities	1	–	–	1	16	17
Designated at FVPL:						
Private debt securities	–	4,051	–	4,051	–	4,051
Loans and receivables:						
Unquoted debt securities[4/]	–	–	–	–	4,589	4,589
Others[5/]	–	–	–	–	12,440	12,440
AFS investments:						
Government securities	1,169	350	40,269	41,788	826	42,614
Other debt securities	1,233	–	4,352	5,585	3,807	9,392
Quoted equity securities	–	–	–	–	37	37
Unquoted equity securities	–	–	131	131	150	281
Miscellaneous COCI	–	–	–	–	5	5

	Consolidated					
	January 1, 2011 (As Restated)					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱24,286	₱24,286
Due from other banks	540	1,995	1,342	3,877	1,265	5,142
Interbank loans receivables	9,394	2,430	238	12,062	630	12,692
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/]	62	39	808	909	2	911
Equity securities	75	–	17	92	108	200
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/]	–	–	2,120	2,120	11,292	13,412
AFS investments:						
Government securities	446	–	26,011	26,457	1,111	27,568
Other debt securities	1,211	–	2,755	3,966	2,469	6,435
Unquoted equity securities	–	–	–	–	357	357
Quoted equity securities	–	–	77	77	94	171
HTM investments:						
Government securities	602	–	32,138	32,740	–	32,740
Other debt securities	2,249	435	2,804	5,488	–	5,488
Miscellaneous COCI	–	–	–	–	2	2

	Parent Company					
	December 31, 2012					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[7/]**	**Total**
Due from BSP [1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱36,531**	**₱36,531**
Due from other banks	**774**	**1,316**	**349**	**2,439**	**855**	**3,294**
Interbank loans receivables	**2,143**	**6,730**	**1,847**	**10,720**	**779**	**11,499**
Securities held under agreements to resell[2/]	**–**	**–**	**–**	**–**	**18,300**	**18,300**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**907**	**907**	**1,064**	**1,971**
Derivative assets[3/]	**2**	**274**	**114**	**390**	**65**	**455**
Equity securities	**–**	**–**	**–**	**–**	**192**	**192**
Private debt securities	**–**	**–**	**–**	**–**	**99**	**99**
Designated at FVPL:						
Private debt securities	**–**	**–**	**–**	**–**	**1,248**	**1,248**
Loans and receivables:						
Unquoted debt securities[4/]	**–**	**–**	**31**	**31**	**3,828**	**3,859**
Others[5/]	**–**	**–**	**–**	**–**	**12,009**	**12,009**
AFS investments:						
Government securities	**219**	**–**	**43,798**	**44,017**	**9,805**	**53,822**
Other debt securities	**1,087**	**–**	**3,245**	**4,332**	**6,220**	**10,552**
Quoted equity securities	**–**	**–**	**–**	**–**	**310**	**310**
Unquoted equity securities	**–**	**–**	**–**	**–**	**79**	**79**
Miscellaneous COCI	**–**	**–**	**–**	**–**	**1**	**1**

	Parent Company					
	December 31, 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	–	–	–	–	37	37
Unquoted equity securities	–	–	–	–	263	263
Miscellaneous COCI	–	–	–	–	5	5

	Parent Company					
	January 1, 2011 (As Restated)					
	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/]	85	27	798	910	1	911
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	2,171	435	2,883	5,489	–	5,489
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, 2012 and 2011, and January 1, 2011, 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.

<u>Liquidity Risk and Funding Management</u>
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					
	December 31, 2012					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱5,599**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,599**
Due from BSP and other banks	**39,692**	**435**	**–**	**1,101**	**–**	**41,228**
Interbank loans receivable	**11,129**	**251**	**119**	**–**	**–**	**11,499**
Securities held under agreements to resell	**18,304**	**–**	**–**	**–**	**–**	**18,304**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**1,978**	**14**	**19**	**36**	**677**	**2,724**
Equity securities	**251**	**–**	**–**	**–**	**–**	**251**
Private debt securities	**100**	**1**	**1**	**3**	**29**	**134**
Derivative assets						
Pay	**6,056**	**716**	**22**	**67**	**52**	**6,913**
Receive	**6,079**	**788**	**24**	**153**	**222**	**7,266**
	23	**72**	**2**	**86**	**170**	**353**
Designated at FVPL:						
Private debt securities	**4**	**8**	**1,255**	**–**	**–**	**1,267**
Loans receivables - gross	**24,188**	**13,517**	**5,862**	**2,125**	**125,258**	**170,950**
Unquoted debt securities - gross	**3,962**	**44**	**9**	**17**	**3,950**	**7,982**
Other receivables - gross	**18,934**	**–**	**–**	**–**	**–**	**18,934**
AFS investments	**557**	**2,643**	**2,773**	**1,487**	**100,702**	**108,162**
Miscellaneous COCI	**1**	**–**	**–**	**–**	**–**	**1**
Total financial assets	**₱124,722**	**₱16,985**	**₱10,040**	**₱4,855**	**₱230,786**	**₱387,388**

(Forward)

	Consolidated					
	December 31, 2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Liabilities						
Deposit liabilities:						
Demand	₱28,152	₱–	₱–	₱–	₱–	₱28,152
Savings	151,002	17,838	7,979	4,892	12,636	194,347
Time	7,524	2,821	1,481	1,784	6,325	19,935
Financial liability at FVPL	43	85	6,311	–	–	6,439
Derivative liabilities:						
Pay	9,798	1,162	476	608	213	12,257
Receive	9,677	1,123	452	518	52	11,822
	121	39	24	90	161	435
Bills and acceptances payable	7,753	4,182	806	40	309	13,090
Subordinated debt	54	107	161	322	11,742	12,386
Accrued interest payable and other liabilities	10,828	390	1	374	3,486	15,079
Total financial liabilities	₱205,477	₱25,462	₱16,763	₱7,502	₱34,659	₱289,863

	Consolidated					
	December 31, 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	2,187	16	24	49	730	3,006
Equity securities	175	–	–	–	–	175
Private debt securities	17	–	–	–	8	25
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	16,789	–	–	–	–	16,789
Receivable from SPV – net	–	–	–	–	–	–
AFS investments	234	467	700	3,037	72,489	76,927
Miscellaneous COCI	5	–	–	–	–	5
Total financial assets	₱118,986	₱21,586	₱9,923	₱5,977	₱192,418	₱348,890
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	37	73	110	219	8,025	8,464
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	43	85	128	255	6,702	7,213
Accrued interest payable and other liabilities	8,677	577	–	258	2,132	11,644
Total financial liabilities	₱19,577	₱18,101	₱19,615	₱39,499	₱181,748	₱278,540

	Consolidated					
	January 1, 2011 (As Restated)					
	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
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	₱222,179	₱340,820
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	37	73	110	219	8,465	8,904
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	43	85	128	255	6,253	6,764
Accrued interest payable and other liabilities	7,628	521	110	2,035	–	10,294
Total financial liabilities	₱31,734	₱21,107	₱22,016	₱45,532	₱145,083	₱265,472

	Parent Company					
	December 31, 2012					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱5,548**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,548**
Due from BSP and other banks	**39,825**	**–**	**–**	**–**	**–**	**39,825**
Interbank loans receivable	**11,129**	**251**	**119**	**–**	**–**	**11,499**
Securities held under agreements to resell	**18,304**	**–**	**–**	**–**	**–**	**18,304**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**1,978**	**14**	**19**	**36**	**677**	**2,724**
Equity securities	**193**	**–**	**–**	**–**	**–**	**193**
Private debt securities	**100**	**1**	**1**	**3**	**29**	**134**
Derivative assets						
Pay	**6,056**	**716**	**22**	**67**	**52**	**6,913**
Receive	**6,079**	**788**	**24**	**153**	**222**	**7,266**
	23	**72**	**2**	**86**	**170**	**353**

(Forward)

	Parent Company					
	December 31, 2012					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Designated at FVPL:						
Private debt securities	**₱4**	**₱8**	**₱1,255**	**₱–**	**₱–**	**₱1,267**
Loans receivables – gross	**24,572**	**12,919**	**5,447**	**1,435**	**123,205**	**167,578**
Unquoted debt securities – gross	**3,962**	**44**	**9**	**17**	**3,950**	**7,982**
Other receivables – gross	**16,076**	**–**	**–**	**–**	**–**	**16,076**
Receivable from SPV						
AFS investments	**541**	**2,630**	**2,767**	**1,470**	**97,479**	**104,887**
HTM investments	**–**	**–**	**–**	**–**	**–**	**–**
Miscellaneous COCI	**1**	**–**	**–**	**–**	**–**	**1**
Total financial assets	**₱122,257**	**₱15,939**	**₱9,619**	**₱3,047**	**₱225,510**	**₱376,371**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱28,417**	**₱–**	**₱–**	**₱–**	**₱–**	**₱28,417**
Savings	**151,034**	**17,838**	**7,979**	**4,892**	**12,636**	**194,379**
Time	**7,779**	**2,821**	**1,481**	**1,784**	**6,325**	**20,190**
Financial liability at FVPL	**43**	**85**	**6,311**	**–**	**–**	**6,439**
Derivative liabilities:						
Pay	**9,798**	**1,162**	**476**	**608**	**213**	**12,257**
Receive	**9,677**	**1,123**	**452**	**518**	**52**	**11,822**
	121	**39**	**24**	**90**	**161**	**435**
Bills and acceptances payable	**7,725**	**4,176**	**805**	**24**	**2**	**12,732**
Subordinated debt	**54**	**107**	**161**	**322**	**11,742**	**12,386**
Accrued interest payable and other liabilities	**8,234**	**390**	**1**	**193**	**3,222**	**12,040**
Total financial liabilities	**₱203,407**	**₱25,456**	**₱16,762**	**₱7,305**	**₱34,088**	**₱287,018**

	Parent Company					
	December 31, 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	2,187	16	24	49	730	3,006
Equity securities	173	–	–	–	–	173
Private debt securities	17	–	–	1	8	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	14,867	–	–	–	–	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	₱115,567	₱20,082	₱9,556	₱4,256	₱189,512	₱338,973

(Forward)

	Parent Company					
	December 31, 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	₱1,531	₱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	37	73	110	219	8,025	8,464
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	43	85	128	255	6,702	7,213
Accrued interest payable and other liabilities	7,280	595	–	258	1,775	9,908
Total financial liabilities	₱16,651	₱18,109	₱19,612	₱39,493	₱181,781	₱275,646

	Parent Company					
	January 1, 2011 (As Restated)					
	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	37	73	110	219	8,465	8,904
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	43	85	128	255	6,253	6,764
Accrued interest payable and other liabilities	7,067	404	–	425	–	7,896
Total financial liabilities	₱29,551	₱20,913	₱21,859	₱43,887	₱144,924	₱261,134

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 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 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, 2012	**₱4.84**	**₱80.22**	**₱7.80**	**₱92.86**
Average Daily	**6.61**	**131.09**	**8.95**	**146.64**
Highest	**16.85**	**340.31**	**11.17**	**354.65**
Lowest	**0.40**	**60.87**	**6.00**	**77.86**

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

* 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):

	2012	2011
End of year	**₱2,317.22**	₱1,922.71
Average Daily	**2,176.61**	1,597.70
Highest	**2,743.57**	2,047.64
Lowest	**1,522.48**	927.67

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 Group and the Parent Company (in millions):

	Consolidated					
	December 31, 2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,599**	**₱5,599**
Due from BSP and other banks	**12,737**	**–**	**–**	**–**	**28,481**	**41,218**
Interbank loans receivable	**11,499**	**–**	**–**	**–**	**–**	**11,499**
Securities held under agreements to resell	**18,300**	**–**	**–**	**–**	**–**	**18,300**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**–**	**–**	**1,971**	**1,971**
Derivative assets	**–**	**–**	**–**	**–**	**455**	**455**
Equity securities	**–**	**–**	**–**	**–**	**250**	**250**
Private debt securities	**–**	**–**	**–**	**–**	**99**	**99**
Designated at FVPL:						
Private debt securities	**–**	**–**	**1,248**	**–**	**–**	**1,248**
Receivable from customers	**55,186**	**21,406**	**7,303**	**6,716**	**61,433**	**152,044**
Unquoted debt securities – gross	**217**	**100**	**–**	**2**	**7,499**	**7,818**
AFS investments	**676**	**1,288**	**6,785**	**312**	**57,936**	**66,997**
Miscellaneous COCI					**1**	**1**
Total financial assets	**₱98,615**	**₱22,794**	**₱15,336**	**₱7,030**	**₱163,724**	**₱307,499**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱–**	**₱–**	**₱–**	**₱–**	**₱28,152**	**₱28,152**
Savings	**63,839**	**14,859**	**4,517**	**3,156**	**106,422**	**192,793**
Time	**8,289**	**3,807**	**851**	**866**	**6,096**	**19,909**
Financial liabilities at FVPL	**–**	**–**	**6,196**	**–**	**284**	**6,480**
Bills and acceptances payable	**8,565**	**2,050**	**894**	**404**	**1,164**	**13,077**
Subordinated debt	**–**	**–**	**–**	**–**	**9,939**	**9,939**
Accrued interest and other financial liabilities	**–**	**–**	**–**	**–**	**15,079**	**15,079**
Total financial liabilities	**₱80,693**	**₱20,716**	**₱12,458**	**₱4,426**	**₱167,136**	**₱285,429**
Repricing gap	**₱17,922**	**₱2,078**	**₱2,878**	**₱2,604**	**(₱3,412)**	**₱22,070**
Cumulative gap	**17,922**	**20,000**	**22,878**	**25,482**	**22,070**	**–**

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

	Consolidated					
	December 31, 2011					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱5,404	₱5,404
Due from BSP and other banks	32,677	11,900	–	–	–	44,577
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	–	–	–	–	175	175
Private debt securities	–	–	–	–	17	17
Designated at FVPL:						
Private debt securities	646	2,095	1,310	–	–	4,051
Receivable from customers	44,238	14,693	5,897	4,212	63,229	132,269
Unquoted debt securities - gross	247	550	401	1	7,162	8,361
AFS investments	263	1,521	2,969	1,548	46,023	52,324
Miscellaneous COCI	–	–	–	–	5	5
Total financial assets	₱113,381	₱30,847	₱10,577	₱5,761	₱124,648	₱285,214
Financial Liabilities						
Deposit liabilities:						
Demand	₱–	₱–	₱–	₱–	₱29,896	₱29,896
Savings	60,309	17,315	3,718	1,801	101,533	184,676
Time	10,040	4,744	839	858	6,481	22,962
Financial liabilities at FVPL	–	–	–	–	6,650	6,650
Bills and acceptances payable	2,745	3,071	228	371	2,043	8,458
Subordinated debt	–	–	–	–	6,452	6,452
Accrued interest and other financial liabilities	–	–	–	–	11,749	11,749
Total financial liabilities	₱73,094	₱25,130	₱4,785	₱3,030	₱164,804	₱270,843
Repricing gap	₱40,287	₱5,717	₱5,792	₱2,731	(₱40,156)	₱14,371
Cumulative gap	40,287	46,004	51,796	54,527	14,371	–

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

	Consolidated					
	January 1, 2011 (As Restated)					
	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	20,781	8,647	–	–	–	29,428
Interbank loans receivable	12,692	–	–	–	–	12,692
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	–	–	–	–	911	911
Equity securities	–	–	–	–	200	200
Designated at FVPL:						
Private debt securities	–	3,492	1,779	–	–	5,271
Receivable from customers - gross	28,858	39,514	7,496	2,662	34,201	112,731
Unquoted debt securities – gross	260	465	1	2,369	8,130	11,225
AFS investments	84	615	429	4	33,399	34,531
HTM investments	949	2,699	2,761	647	31,172	38,228
Miscellaneous COCI	–	–	–	–	2	2
Total financial assets	₱70,424	₱55,432	₱12,466	₱5,682	₱123,071	₱267,075

(Forward)

	Consolidated					
	January 1, 2011 (As Restated)					
	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	₱–	₱–	₱–	₱–	₱27,964	₱27,964
Savings	54,669	18,217	4,236	1,968	92,192	171,282
Time	16,477	5,939	1,661	604	2,508	27,189
Financial liabilities at FVPL	58	–	–	–	6,517	6,575
Bills and acceptances payable	9,607	316	180	258	1,643	12,004
Subordinated debt	–	–	–	5,487	–	5,487
Accrued interest and other financial liabilities	–	–	–	–	12,735	12,735
Total financial liabilities	₱80,811	₱24,472	₱6,077	₱8,317	₱143,559	₱263,236
Repricing gap	(₱10,387)	₱30,960	₱6,389	(₱2,635)	(₱20,488)	₱3,839
Cumulative gap	(10,387)	20,573	26,962	24,327	3,839	–

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

	Parent Company					
	December 31, 2012					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,548**	**5,548**
Due from BSP and other banks	**9,821**	**–**	**–**	**–**	**30,004**	**39,825**
Interbank loans receivable	**11,499**	**–**	**–**	**–**	**–**	**11,499**
Securities held under agreements to resell	**18,300**	**–**	**–**	**–**	**–**	**18,300**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**–**	**–**	**1,971**	**1,971**
Derivative assets	**–**	**–**	**–**	**–**	**454**	**454**
Equity securities	**–**	**–**	**–**	**–**	**99**	**99**
Private debt securities	**–**	**–**	**–**	**–**	**193**	**193**
Designated at FVPL:						
Private debt securities	**–**	**–**	**1,248**	**–**	**–**	**1,248**
Receivable from customers	**55,042**	**20,847**	**6,939**	**6,110**	**57,355**	**146,293**
Unquoted debt securities - gross	**217**	**100**	**–**	**2**	**7,499**	**7,818**
AFS investments	**671**	**1,287**	**6,774**	**312**	**55,721**	**64,765**
Miscellaneous COCI	**–**	**–**	**–**	**–**	**1**	**1**
Total financial assets	**₱95,550**	**₱22,234**	**₱14,961**	**₱6,424**	**₱158,845**	**₱298,014**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱–**	**₱–**	**₱–**	**₱–**	**₱28,417**	**₱28,417**
Savings	**63,839**	**14,859**	**4,517**	**3,156**	**106,454**	**192,825**
Time	**8,289**	**3,807**	**851**	**866**	**6,351**	**20,164**
Financial liabilities at FVPL	**–**	**–**	**6,196**	**–**	**284**	**6,480**
Bills and acceptances payable	**8,481**	**1,902**	**663**	**23**	**1,649**	**12,718**
Subordinated debt	**–**	**–**	**–**	**–**	**9,939**	**9,939**
Accrued interest and other financial liabilities	**–**	**–**	**–**	**–**	**12,041**	**12,041**
Total financial liabilities	**₱80,609**	**₱20,568**	**₱12,227**	**₱4,045**	**₱165,135**	**₱282,584**
Repricing gap	**₱14,941**	**₱1,666**	**₱2,734**	**₱2,379**	**(₱6,290)**	**₱15,430**
Cumulative gap	**14,941**	**16,607**	**19,341**	**21,720**	**15,430**	

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

	Parent Company					
	December 31, 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	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.

	Parent Company					
	January 1, 2011 (As Restated)					
	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	16,787	11,432	–	–	–	28,219
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	–	–	–	–	911	911
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	31,115	108,443
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	31,084	38,140
Miscellaneous COCI	–	–	–	–	2	2
Total financial assets	₱65,731	₱58,609	₱12,144	₱5,161	₱118,270	₱259,915

(Forward)

	Parent Company					
	January 1, 2011 (As Restated)					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Liabilities						
Deposit liabilities:						
Demand	₱–	₱–	₱–	₱–	₱28,163	₱28,163
Savings	54,669	18,217	4,236	1,968	92,084	171,174
Time	16,439	5,881	1,642	603	2,986	27,551
Financial liabilities at FVPL	58	–	–	–	6,517	6,575
Bills and acceptances payable	9,542	171	–	–	3,144	12,857
Subordinated debt	–	–	–	5,487	–	5,487
Accrued interest and other financial liabilities	6,739	404	–	425	2,595	10,163
Total financial liabilities	₱87,447	₱24,673	₱5,878	₱8,483	₱135,489	₱261,970
Repricing gap	(₱21,716)	₱33,936	₱6,266	(₱3,322)	(₱17,219)	(₱2,055)
Cumulative gap	(21,716)	12,220	18,486	15,164	(2,055)	

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 Group's and the Parent Company's repricing gap for the years ended December 31, 2012 and 2011, and January 1, 2011 (in millions):

	Consolidated					
	December 31, 2012		December 31, 2011		January 1, 2011 (As Restated)	
	Statement of Income	**Equity**	Statement of Income	Equity	Statement of Income	Equity
+50bps	**₱104**	**₱104**	₱234	₱234	₱92	₱92
-50bps	**(104)**	**(104)**	(234)	(234)	(92)	(92)
+100bps	**209**	**209**	468	468	185	185
-100bps	**(209)**	**(209)**	(468)	(468)	(185)	(185)

	Parent Company					
	December 31, 2012		December 31, 2011		January 1, 2011 (As Restated)	
	Statement of Income	**Equity**	Statement of Income	Equity	Statement of Income	Equity
+50bps	**₱88**	**₱88**	₱222	₱222	₱50	₱50
-50bps	**(88)**	**(88)**	(222)	(222)	(50)	(50)
+100bps	**176**	**176**	445	445	100	100
-100bps	**(176)**	**(176)**	(445)	(445)	(100)	(100)

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

	Consolidated		
	December 31, 2012		
	USD	**Others**	**Total**
Assets			
COCI and due from BSP	**₱591**	**₱175**	**₱766**
Due from other banks	**1,849**	**643**	**2,492**
Interbank loans receivable and securities held under agreements to resell	**560**	**–**	**560**
Loans and receivables	**4,547**	**237**	**4,784**
Financial assets at FVPL	**1,261**	**–**	**1,261**
AFS investments	**2,453**	**–**	**2,453**
Other assets	**11,072**	**159**	**11,231**
Total assets	**22,333**	**1,214**	**23,547**
Liabilities			
Bills and acceptances payable	**5,454**	**89**	**5,543**
Accrued taxes, interest and other expenses	**1,592**	**8**	**1,600**
Other liabilities	**1,646**	**167**	**1,813**
Total liabilities	**8,692**	**264**	**8,956**
Net Exposure	**₱13,641**	**₱950**	**₱14,591**

	Consolidated		
	December 31, 2011		
	USD	Others	Total
Assets			
COCI and due from BSP	₱878	₱134	₱1,012
Due from other banks	4,408	320	4,728
Interbank loans receivable and securities held under agreements to resell	405	–	405
Loans and receivables	5,810	–	5,810
Financial assets at FVPL	4,086	–	4,086
AFS investments	8,006	–	8,006
Other assets	5,142	269	5,411
Total assets	28,735	723	29,458
Liabilities			
Deposit liabilities	510	–	510
Bills and acceptances payable	7,122	78	7,200
Accrued taxes, interest and other expenses	1,640	–	1,640
Other liabilities	834	3,489	4,323
Total liabilities	10,106	3,567	13,673
Net Exposure	₱18,629	(₱2,844)	₱15,785

	Consolidated		
	January 1, 2011 (As Restated)		
	USD	Others	Total
Assets			
COCI and due from BSP	₱754	₱160	₱914
Due from other banks	3,969	217	4,186
Interbank loans receivable and securities held under agreements to resell	526	29	555
Loans and receivables	3,772	1	3,773
Financial assets at FVPL	5,388	–	5,388
AFS investments	923	–	923
HTM investments	6,831	–	6,831
Other assets	12,082	362	12,444
Total assets	34,245	769	35,014
Liabilities			
Deposit liabilities	2	–	2
Bills and acceptances payable	6,353	1	6,354
Accrued taxes, interest and other expenses	1,559	–	1,559
Other liabilities	322	3,177	3,499
Total liabilities	8,236	3,178	11,414
Net Exposure	₱26,009	(₱2,409)	₱23,600

	Parent Company		
	December 31, 2012		
	USD	**Others**	**Total**
Assets			
COCI and due from BSP	**₱591**	**₱175**	**₱766**
Due from other banks	**331**	**215**	**546**
Interbank loans receivable and securities held under agreements to resell	**560**	**–**	**560**
Loans and receivables	**3,950**	**51**	**4,001**
Financial assets at FVPL	**1,261**	**–**	**1,261**
AFS investments	**1,940**	**–**	**1,940**
Other assets	**10,985**	**70**	**11,055**
Total assets	**19,618**	**511**	**20,129**
Liabilities			
Bills and acceptances payable	**5,241**	**3**	**5,244**
Accrued taxes, interest and other expenses	**1,560**	**–**	**1,560**
Other liabilities	**1,644**	**25**	**1,669**
Total liabilities	**8,445**	**28**	**8,473**
Net Exposure	**₱11,173**	**₱483**	**₱11,656**

	Parent Company		
	December 31, 2011		
	USD	Others	Total
Assets			
COCI and due from BSP	₱810	₱134	₱944
Due from other banks	907	320	1,227
Interbank loans receivable and securities held under agreements to resell	405	–	405
Loans and receivables	5,068	–	5,068
Financial assets at FVPL	4,086	–	4,086
AFS investments	7,946	–	7,946
Other assets	4,984	269	5,253
Total assets	24,206	723	24,929

(Forward)

	Parent Company		
	December 31, 2011		
	USD	Others	Total
Liabilities			
Deposit liabilities	₱–	₱–	₱–
Bills and acceptances payable	7,093	78	7,171
Accrued taxes, interest and other expenses	1,573	–	1,573
Other liabilities	215	3,489	3,704
Total liabilities	8,881	3,567	12,448
Net Exposure	₱15,325	(₱2,844)	₱12,481

	Parent Company		
	January 1, 2011 (As Restated)		
	USD	Others	Total
Assets			
COCI and due from BSP	₱754	₱160	₱914
Due from other banks	468	217	685
Interbank loans receivable and securities held under agreements to resell	526	29	555
Loans and receivables	3,772	1	3,773
Financial assets at FVPL	5,388	–	5,388
AFS investments	923	–	923
HTM investments	6,831	–	6,831
Other assets	12,082	362	12,444
Total assets	30,744	769	31,513
Liabilities			
Deposit liabilities	2	–	2
Bills and acceptances payable	6,353	1	6,354
Accrued taxes, interest and other expenses	1,559	–	1,559
Other liabilities	322	3,177	3,499
Total liabilities	8,236	3,178	11,414
Net Exposure	₱22,508	(₱2,409)	₱20,099

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 ₱2.1billion (sold) and ₱1.4 billion (bought) as of December 31, 2012 and ₱4.7 billion (sold) and ₱2.5 billion (bought) as of December 31, 2011.

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 time deposit liabilities and subordinated debt, 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.

Time deposit liabilities and 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:

	Consolidated					
	December 31, 2012		December 31, 2011		January 1, 2011 (As Restated)	
	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	**₱42,774,487**	**₱42,774,487**	₱43,556,905	₱43,556,905	₱29,743,172	₱29,743,172
Due from other banks	**4,042,769**	**4,042,769**	6,423,981	6,423,981	5,141,549	5,141,549
Interbank loans receivable	**11,498,756**	**11,498,756**	17,097,648	17,097,648	12,691,967	12,691,967
Securities held under agreements to resell	**18,300,000**	**18,300,000**	18,300,000	18,300,000	6,800,000	6,800,000
Receivables from customers:						
Business loans	**83,382,445**	**84,566,445**	67,327,489	67,435,795	57,614,436	58,549,272
GOCCs and NGAs	**24,410,497**	**24,410,497**	27,774,012	27,774,012	17,080,112	17,080,115
Consumers	**11,196,835**	**11,483,394**	7,521,449	7,588,400	7,545,568	7,965,925
LGUs	**7,157,470**	**7,215,785**	5,900,276	5,901,463	6,352,406	6,623,560
Fringe benefits	**643,608**	**648,299**	697,075	697,075	729,274	730,200
Unquoted debt securities	**3,859,268**	**5,131,586**	4,588,497	5,231,048	7,625,791	8,676,069
Other receivables	**14,057,386**	**14,057,386**	12,440,237	12,440,237	13,367,891	13,367,891
Other assets	**808**	**808**	5,220	5,220	1,970	1,970
HTM investments:						
Government securities	–	–	–	–	32,739,615	35,503,136
Other debt securities	–	–	–	–	5,488,576	5,738,780
Financial Liabilities						
Financial liabilities at amortized cost						
Deposit liabilities:						
Demand	**28,152,296**	**28,152,296**	29,896,120	29,896,120	27,964,372	27,964,372
Savings	**192,793,260**	**192,793,260**	184,676,120	184,676,120	171,282,454	171,282,454
Time	**19,908,821**	**20,134,885**	22,961,698	23,180,938	27,189,058	27,310,825
Bills and acceptances payable:						
BSP and local bank	**6,998,633**	**6,998,633**	4,413,379	4,413,379	2,542,970	2,542,970
Foreign banks	**2,870,946**	**2,870,946**	1,110,136	1,110,136	9,440,466	9,440,466
Acceptances outstanding	**33,859**	**33,859**	134,460	134,460	17,161	17,161
Others	**3,173,463**	**3,173,463**	2,800,450	2,800,450	3,541	3,541
Subordinated debt	**9,938,816**	**10,956,745**	6,452,473	7,118,314	5,486,735	5,685,638
Accrued interest payable	**1,987,231**	**1,987,231**	2,005,487	2,005,487	2,170,952	2,170,952
Other liabilities	**13,091,920**	**13,091,920**	9,638,197	9,638,197	10,563,600	10,563,600

(Forward)

	Parent Company					
	December 31, 2012		December 31, 2011		January 1, 2011 (As Restated)	
	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	**₱42,079,372**	**₱42,079,372**	₱42,795,706	₱42,795,706	₱29,583,597	₱29,583,597
Due from other banks	**3,293,782**	**3,293,782**	4,906,698	4,906,698	3,945,632	3,945,632
Interbank loans receivable	**11,498,756**	**11,498,756**	17,097,648	17,097,648	12,245,259	12,245,259
Securities held under agreements to resell	**18,300,000**	**18,300,000**	18,300,000	18,300,000	6,800,000	6,800,000
Receivables from customers:						
Business loans	**80,968,054**	**82,152,054**	65,641,416	65,749,721	56,800,960	56,800,960
GOCCs and NGAs	**24,410,497**	**24,410,497**	27,774,012	27,774,012	17,080,112	17,080,115
Consumers	**11,102,326**	**11,388,885**	7,418,170	7,485,471	6,674,781	7,355,138
LGUs	**7,157,470**	**7,215,785**	5,900,276	5,901,463	6,352,406	6,623,560
Fringe benefits	**629,871**	**634,560**	687,103	687,103	715,608	716,513
Unquoted debt securities	**3,859,268**	**5,131,586**	4,588,497	5,231,048	7,625,791	8,676,069
Other receivables	**12,009,362**	**12,009,362**	10,643,477	10,643,477	11,292,077	11,292,077
Other assets	**808**	**808**	5,220	5,220	1,970	1,970
HTM investments:						
Government securities	–	–	–	–	32,651,512	35,415,033
Other debt securities	–	–	–	–	5,488,576	5,738,780
Financial Liabilities						
Financial liabilities at amortized cost						
Deposit liabilities:						
Demand	**28,417,452**	**28,417,452**	30,042,425	30,042,425	28,163,081	28,163,081
Savings	**192,824,803**	**192,824,803**	184,692,779	184,692,779	171,173,893	171,173,893
Time	**20,164,420**	**20,390,484**	23,726,483	23,945,723	27,550,759	27,672,526
Bills and acceptances payable:						
BSP and local bank	**6,940,295**	**6,940,295**	2,902,338	2,902,338	1,861,937	1,861,937
Foreign banks	**2,571,194**	**2,571,194**	881,110	881,110	9,569,923	9,569,923
Acceptances outstanding	**33,859**	**33,859**	134,460	134,460	17,161	17,161
Others	**3,173,463**	**3,173,463**	3,400,450	3,400,450	1,407,640	1,407,640
Subordinated debt	**9,938,816**	**10,956,745**	6,452,473	7,118,314	5,486,735	5,685,638
Accrued interest payable	**1,988,623**	**1,988,623**	2,003,056	2,003,056	2,170,326	2,170,326
Other liabilities	**10,051,904**	**10,051,904**	7,904,902	7,904,902	7,993,133	7,993,133

The discount rate used in estimating the fair value of loans and receivables ranges from 0.30% to 9.25% and from 5.00% to 9.25% as of December 31, 2012 and 2011 for peso-denominated receivables, respectively, and 3.25% as of December 31, 2012 and 2011 for foreign currency-denominated receivables.

The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 1.38% to 3.63% and from 1.20% to 4.99% as of December 31, 2012 and 2011, 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.

The Group and the Parent Company held the following financial instruments measured at fair value:

	Consolidated			
	December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱1,970,754**	**₱–**	**₱–**	**₱1,970,754**
Derivative assets	**59,044**	**395,457**	**–**	**454,501**
Private debt securities	**99,502**	**–**	**–**	**99,502**
Equity securities	**250,552**	**–**	**–**	**250,552**
Designated at FVPL:				
Private debt securities	**–**	**1,247,756**	**–**	**1,247,756**
	₱2,379,852	**₱1,643,213**	**₱–**	**₱4,023,065**
AFS investments:				
Government securities	**₱55,558,527**	**₱–**	**₱–**	**₱55,558,527**
Other debt securities	**8,979,888**	**1,940,245**	**–**	**10,920,133**
Equity securities	**440,230**	**–**	**–**	**440,230**
	₱64,978,645	**₱1,940,245**	**₱–**	**₱66,918,890**
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	**₱–**	**₱–**	**₱6,196,070**	**₱6,196,070**
Derivative liabilities	**–**	**283,751**	**–**	**283,751**
	₱–	**₱283,751**	**₱6,196,070**	**₱6,479,821**

	Consolidated			
	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱2,178,701	₱–	₱–	₱2,178,701
Derivative assets	91,719	362,332	–	454,051
Private debt securities	16,910	–	–	16,910
Equity securities	175,332	–	–	175,332
Designated at FVPL:				
Private debt securities	–	4,050,671	–	4,050,671
	₱2,462,662	₱4,413,003	–	₱6,875,665
AFS investments:				
Government securities	₱42,614,457	₱–	₱–	₱42,614,457
Other debt securities	5,713,829	3,677,689	–	9,391,518
Equity securities	155,967	–	–	155,967
	₱48,484,253	₱3,677,689	₱–	₱52,161,942
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,479,170	₱6,479,170
Derivative liabilities	–	171,013	–	171,013
	₱–	₱171,013	₱6,479,170	₱6,650,183

	Consolidated			
	January 1, 2011 (As Restated)			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱9,598,734	₱–	₱–	₱9,598,734
Derivative assets	40,337	870,195	–	910,532
Private debt securities	–	–	–	–
Equity securities	200,354	–	–	200,354
Designated at FVPL:				
Private debt securities	–	5,271,027	–	5,271,027
	₱9,839,425	₱6,141,222	–	₱15,980,647
AFS investments:				
Government securities	₱27,568,048	₱–	₱–	₱27,568,048
Other debt securities	2,361,193	4,073,496	–	6,434,689
Equity securities	190,664	–	–	190,664
	₱30,119,905	₱4,073,496	₱–	₱34,193,401
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,516,744	₱6,516,744
Derivative liabilities	–	57,852	–	57,852
	₱–	₱57,852	₱6,516,744	₱6,574,596

	Parent Company			
	December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱1,970,754**	**₱–**	**₱–**	**₱1,970,754**
Derivative assets	**59,044**	**395,457**	**–**	**454,501**
Private debt securities	**99,502**	**–**	**–**	**99,502**
Equity securities	**192,585**	**–**	**–**	**192,585**
Designated at FVPL:				
Private debt securities	**–**	**1,247,756**	**–**	**1,247,756**
	₱2,321,885	**₱1,643,213**	**₱–**	**₱3,965,098**
AFS investments:				
Government securities	**₱53,822,929**	**₱–**	**₱–**	**₱53,822,929**
Other debt securities	**8,611,469**	**1,940,245**	**–**	**10,551,714**
Equity securities	**310,808**	**–**	**–**	**310,808**
	₱62,745,206	**₱1,940,245**	**₱–**	**₱64,685,451**
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	**₱–**	**₱–**	**₱6,196,070**	**₱6,196,070**
Derivative liabilities	**–**	**283,751**	**–**	**283,751**
	₱–	**₱283,751**	**₱6,196,070**	**₱6,479,821**

	Parent Company			
	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱2,178,701	₱–	₱–	₱2,178,701
Derivative assets	91,719	362,332	–	454,051
Equity securities	172,875	–	–	172,875
Private debt securities	16,910	–	–	16,910
Designated at FVPL:				
Private debt securities	–	4,050,671	–	4,050,671
	₱2,460,205	₱4,413,003	₱–	₱6,873,208
AFS investments:				
Government securities	₱41,218,164	₱–	₱–	₱41,218,164
Other debt securities	5,334,621	3,677,689	–	9,012,310
Equity securities	36,637	–	–	36,637
	₱46,589,422	₱3,677,689	₱–	₱50,267,111
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,479,170	₱6,479,170
Derivative liabilities	–	171,013	–	171,013
	₱–	₱171,013	₱6,479,170	₱6,650,183

	Parent Company			
	January 1, 2011 (As Restated)			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱9,598,734	₱–	₱–	₱9,598,734
Derivative assets	40,337	870,195	–	910,532
Equity securities	186,842	–	–	186,842
Designated at FVPL:				
Private debt securities	–	5,270,790	–	5,270,790
	₱9,825,913	₱6,140,985	₱–	₱15,966,898
AFS investments:				
Government securities	₱26,456,593	₱–	₱–	₱26,456,593
Other debt securities	2,306,487	3,764,990	–	6,071,477
Equity securities	54,164	–	–	54,164
	₱28,817,244	₱3,764,990	₱–	₱32,582,234
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,516,744	₱6,516,744
Derivative liabilities	–	57,852	–	57,852
	₱–	₱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. In applying the discounted cash flow analysis to determine the fair value of financial liabilities designated at FVPL, the Group and the Parent Company used discount rate ranging from 1.38% to 3.63% and from 1.20% to 4.99% as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, 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:

	December 31, 2012	December 31, 2011	January 1, 2011
Balance at beginning of year	**₱6,479,170**	₱6,516,744	₱6,309,823
Add total losses (gain) recorded in profit and loss	**(283,100)**	(37,574)	206,921
Balance at end of year	**₱6,196,070**	₱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):

	December 31, 2012		December 31, 2011		January 1, 2011	
	Statement of Income	**Equity**	Statement of Income	Equity	Statement of Income	Equity
Financial Liability						
Subordinated debt designated at FVPL						
+50bps	**₱14**	**₱14**	₱45	₱45	₱15	₱15
- 50bps	**(14)**	**(14)**	(45)	(45)	(15)	(15)
+100bps	**90**	**90**	90	90	117	117
-100bps	**(90)**	**(90)**	(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 board of directors, 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:

	2012					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱1,230,721	₱6,590,457	₱3,231,110	₱197,948	₱110,371	₱11,360,607
Interest expense	(2,128,538)	(596,735)	(1,714,888)	(2,789)	58,048	(4,384,902)
Net interest margin	(897,817)	5,993,722	1,516,222	195,159	168,419	6,975,705
Other income	905,734	1,562,453	5,733,577	2,022,222	637,100	10,861,086
Other expenses	(3,086,619)	(3,120,771)	(603,858)	(1,714,097)	(447,306)	(8,972,651)
Segment result	(3,078,702)	4,435,404	6,645,941	503,284	358,213	8,864,140
Inter-segment						
Imputed income	4,511,306				4,511,306	–
Imputed cost		(2,096,482)	(2,414,824)		(4,511,306)	–
Segment result to third party	₱1,432,604	₱2,338,922	₱4,231,117	₱503,284	₱358,213	8,864,140
Unallocated expenses						(2,922,013)
Net income before share in net income of an associate and income tax						5,942,127
Share in net income of an associate						10,309
Net income before income tax						5,952,436
Income tax						(924,734)
Net income						5,027,702
Non-controlling interest						(375,896)
Net income for the year attributable to equity holders of the Parent Company						₱4,651,806
Other Information						
Segment assets	₱50,745,189	₱95,365,478	₱147,433,116	₱39,211,636	(₱4,754,066)	₱328,001,353
Unallocated assets						3,005,186
Total assets						₱331,006,539
Segment liabilities	₱205,217,147	₱32,452,570	₱40,985,859	₱16,131,643	(₱6,489,036)	₱288,298,183
Unallocated liabilities						2,961,465
Total liabilities						₱291,259,648
Other Segment Information						
Capital expenditures	₱506,515	₱6,119	₱3,131	₱170,204	(₱284,710)	₱401,259
Depreciation and amortization	₱160,741	₱170,691	₱6,470	₱77,616	₱61,364	₱476,882
Unallocated depreciation and amortization						236,353
Total depreciation and amortization						₱713,235
Provision for (reversal of) impairment, credit and other losses	₱37,130	₱674,855	₱249,369	(₱149,367)	₱121,714	₱933,701

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

	2011 (As Restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱1,113,053	₱6,507,214	₱4,103,289	₱66,393	₱682,211	₱12,472,160
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	736,998	7,203,456
Other income	1,017,801	1,550,080	4,501,903	2,378,784	877,188	10,325,756
Other expenses	(2,558,105)	(1,043,515)	(1,018,412)	(1,625,041)	(324,688)	(6,569,761)
Segment result	(1,606,710)	5,029,483	5,431,295	815,885	1,289,498	10,959,451
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	₱1,289,498	10,959,451
Unallocated expenses						(5,393,362)
Net income before share in net income of an associate and income tax						5,566,089
Share in net income of an associate						68,955
Net income before income tax						5,635,044
Income tax						(879,352)
Net income						4,755,692
Non-controlling interest						(86,340)
Net income for the year attributable to equity holders of the Parent Company						₱4,669,352
Other Information						
Segment assets	₱48,015,755	₱124,180,936	₱102,414,597	₱36,296,942	(₱2,356,960)	₱308,551,270
Unallocated assets						3,515,369
Total assets						₱312,066,639
Segment liabilities	₱187,646,586	₱32,584,614	₱44,265,932	₱9,826,586	(₱1,129,540)	₱273,194,178
Unallocated liabilities						3,898,024
Total liabilities						₱277,092,202
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	₱916,815	₱1,552,400

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

	2010 (As Restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱1,480,269	₱6,030,114	₱4,382,864	₱240,935	₱196,871	₱12,331,053
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	281,721	7,559,477
Other income	1,075,764	2,074,849	2,931,631	2,813,268	1,200,145	10,095,657
Other expenses	(3,560,959)	(873,386)	(609,598)	(823,742)	(620,418)	(6,488,103)
Segment result	(2,100,152)	5,396,349	4,785,929	2,223,457	861,448	11,167,031
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	₱861,448	11,167,031
Unallocated expenses						(6,255,591)
Net income before share in net income of an associateand income tax						4,911,440
Share in net income of an associate						45,065
Net income before income tax						4,956,505
Income tax						(924,218)
Net income						4,032,287
Non-controlling interest						(466,568)
Net income for the year attributable to equity holders of the Parent Company						₱3,565,719
Other Information						

(Forward)

	2010 (As Restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱42,722,421	₱121,940,477	₱113,967,830	₱28,799,188	(₱14,319,174)	₱293,110,742
Unallocated assets						4,009,286
Total assets						₱297,120,028
Segment liabilities	₱189,232,060	₱24,282,218	₱42,900,590	₱14,836,876	(₱5,884,169)	₱265,367,575
Unallocated liabilities						3,380,867
Total liabilities						₱268,748,442
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*

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		
	December 31, 2012	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)	**December 31 2012**	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)
Philippines	**₱320,514,714**	₱300,809,127	₱284,253,866	**₱283,683,617**	₱269,180,023	₱259,579,003	**₱399,026**	₱341,572	₱278,242
Asia (excluding Philippines)	**4,786,765**	5,136,569	6,194,228	**4,120,423**	4,320,174	5,201,196	**1,895**	5,433	28,612
USA and Canada	**5,156,870**	5,279,980	5,069,930	**3,150,382**	3,069,855	2,772,714	**338**	4,855	159
United Kingdom	**308,233**	541,984	1,264,388	**76,051**	275,895	938,516	–	2,073	6,459
Other European Union Countries	**239,957**	298,979	337,616	**229,175**	246,255	257,013	–	–	3,011
	₱331,006,539	₱312,066,639	₱297,120,028	**₱291,259,648**	₱277,092,202	₱268,748,442	**₱401,259**	₱353,933	₱316,483

	Credit Commitments			Revenues		
	December 31, 2012	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)
Philippines	**₱442,084**	₱2,026,118	₱3,203,881	**₱20,726,570**	₱21,152,270	₱20,566,948
Asia (excluding Philippines)	**515,684**	70,893	82,422	**771,601**	761,750	874,112
USA and Canada	**37,606**	36,558	11,280	**605,993**	632,123	809,595
United Kingdom	–	–	–	**117,116**	144,683	118,901
Other European Union Countries	–	–	–	**10,723**	176,045	102,219
	₱995,374	₱2,133,569	₱3,297,583	**₱22,232,003**	₱22,866,871	₱22,471,775

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.

The Group has no significant customers which contribute 10% or more of the revenues.

7. **Financial Assets at Fair Value Through Profit or Loss**

This account consists of:

	Consolidated		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)
Held-for-trading:			
Government securities	**₱1,970,754**	₱2,178,701	₱9,598,734
Derivative assets (Note 22)	**454,501**	454,051	910,532
Equity securities	**250,552**	175,332	200,354
Private debt securities	**99,502**	16,910	–
	2,775,309	2,824,994	10,709,620
Designated at FVPL:			
Private debt securities	**1,247,756**	4,050,671	5,271,027
	₱4,023,065	₱6,875,665	₱15,980,647

	Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)
Held-for-trading:			
Government securities	**₱1,970,754**	₱2,178,701	₱9,598,734
Derivative assets (Note 22)	**454,501**	454,051	910,532
Equity securities	**192,585**	172,875	186,842
Private debt securities	**99,502**	16,910	–
	2,717,342	2,822,537	10,696,108
Designated at FVPL:			
Private debt securities	**1,247,756**	4,050,671	5,270,790
	₱3,965,098	₱6,873,208	₱15,966,898

Government and private debt securities include unrealized gain of ₱50.1 million and ₱31.9 million as of December 31, 2012 and 2011, respectively, for the Group and the Parent Company.

As of December 31, 2012 and 2011, the effective interest rates of government securities ranges from 0.67% to 6.72% and from 1.94% to 6.88%, respectively.

As of December 31, 2012 and 2011, the effective interest rates of private debt securities ranges from 3.95% to 7.20%, respectively.

Equity securities include unrealized loss of ₱3.9 million and ₱4.3 million for the Group and the Parent Company as of December 31, 2012, respectively, and unrealized gain of ₱4.8 million and ₱4.9 million for the Group and the Parent Company as of December 31, 2011, 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. Unrealized gain from financial assets designated at FVPL amounted to ₱16.3 million and unrealized loss of ₱4.5 million as of December 31, 2012 and 2011, respectively.

On March 22 and August 17, 2012, the Parent Company pre-terminated investments in CLN designated at financial assets at FVPL with a total face amount of USD47.5 million or ₱2.0 billion and USD15.0 million or ₱636.3 million, respectively, in which the Parent Company realized trading gain of USD0.2 million or equivalent to ₱8.3 million. The carrying amount of the preterminated securities as of pre-termination dates amounted to USD48.1 million or ₱2.1 billion and USD14.8 million or ₱628.2 million, respectively.

8. Loans and Receivables

This account consists of:

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011	**December 31, 2012**	December 31, 2011	January 1, 2011
Receivable from customers:						
Loans and discounts	**₱124,072,963**	₱102,665,659	₱85,647,736	**₱123,118,335**	₱102,090,119	₱85,239,740
Customers' liabilities on acceptances, letters of credit and trust receipts	**4,150,208**	7,068,555	5,072,884	**4,150,208**	7,068,555	5,072,884
Bills purchased (Note 21)	**2,556,211**	3,604,241	2,082,774	**2,556,211**	3,604,241	2,082,774
Lease contracts receivable (Note 27)	**2,043,456**	1,875,682	1,779,149	**105,859**	106,350	86,200
Credit card receivables	**286,623**	335,671	484,103	**286,623**	335,671	484,103
	133,109,461	115,549,808	95,066,646	**130,217,236**	113,204,936	92,965,701
Less unearned and other deferred income	**910,617**	909,680	595,399	**676,591**	705,225	415,871
	132,198,844	114,640,128	94,471,247	**129,540,645**	112,499,711	92,549,830
Unquoted debt securities (Note 16)	**7,818,199**	8,361,129	11,225,478	**7,818,199**	8,361,129	11,225,478
Other receivables:						
Accounts receivable	**7,517,056**	6,072,310	6,857,057	**4,731,355**	4,183,025	6,838,802
Accrued interest receivable	**6,190,680**	6,344,908	5,864,079	**6,150,746**	6,312,182	3,697,134
Sales contract receivables	**4,633,079**	3,902,891	4,221,452	**4,633,079**	3,902,891	4,221,452
Miscellaneous	**593,434**	469,009	722,474	**561,034**	468,604	720,006
	18,934,249	16,789,118	17,665,062	**16,076,214**	14,866,702	15,477,394
	158,951,292	139,790,375	123,361,787	**153,435,058**	135,727,542	119,252,702
Less allowance for credit losses (Note 15)	**14,243,783**	13,541,340	13,046,309	**13,298,210**	13,074,591	12,710,967
	₱144,707,509	₱126,249,035	₱110,315,478	**₱140,136,848**	₱122,652,951	₱106,541,735

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

	Consolidated December 31, 2012							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Receivable from customers:								
Loans and discounts	**₱83,058,722**	**₱21,598,814**	**₱7,287,123**	**₱11,469,948**	**₱658,356**	**₱–**	**₱–**	**₱124,072,963**
Customers' liabilities on acceptances, letters of credit and trust receipts	**2,658,590**	**1,491,618**	**–**	**–**	**–**	**–**	**–**	**4,150,208**
Bills purchased (Note 21)	**1,165,415**	**1,390,796**	**–**	**–**	**–**	**–**	**–**	**2,556,211**
Lease contracts receivable (Note 27)	**2,041,954**	**–**	**–**	**1,502**	**–**	**–**	**–**	**2,043,456**
Credit card accounts	**–**	**–**	**–**	**286,623**	**–**	**–**	**–**	**286,623**
	88,924,681	**24,481,228**	**7,287,123**	**11,758,073**	**658,356**	**–**	**–**	**133,109,461**
Less unearned and other deferred income	**910,511**	**–**	**–**	**106**	**–**	**–**	**–**	**910,617**
	88,014,170	**24,481,228**	**7,287,123**	**11,757,967**	**658,356**	**–**	**–**	**132,198,844**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**	**7,818,199**	**–**	**7,818,199**
Other receivables:								
Accounts receivable	**–**	**–**	**–**	**–**	**–**	**–**	**7,517,056**	**7,517,056**
Accrued interest receivable	**–**	**–**	**–**	**–**	**–**	**–**	**6,190,680**	**6,190,680**
Sales contract receivables	**–**	**–**	**–**	**–**	**–**	**–**	**4,633,079**	**4,633,079**
Miscellaneous	**–**	**–**	**–**	**–**	**–**	**–**	**593,434**	**593,434**
	88,014,170	**24,481,228**	**7,287,123**	**11,757,967**	**658,356**	**7,818,199**	**18,934,249**	**158,951,292**
Less allowance for credit losses (Note 15)	**4,631,725**	**70,731**	**129,653**	**561,132**	**14,748**	**3,958,931**	**4,876,863**	**14,243,783**
	₱83,382,445	**₱24,410,497**	**₱7,157,470**	**₱11,196,835**	**₱643,608**	**₱3,859,268**	**₱14,057,386**	**₱144,707,509**

Consolidated
December 31, 2011

	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱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:								
Accounts receivable	–	–	–	–	–	–	6,072,310	6,072,310
Accrued interest receivable	–	–	–	–	–	–	6,344,908	6,344,908
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

Parent Company
December 31, 2012

	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Receivable from customers:								
Loans and discounts	**₱82,226,939**	**₱21,598,813**	**₱7,287,123**	**₱11,360,846**	**₱644,614**	**₱–**	**₱–**	**₱123,118,335**
Customers' liabilities on acceptances, letters of credit and trust receipts	**2,658,589**	**1,491,619**	**–**	**–**	**–**	**–**	**–**	**4,150,208**
Bills purchased (Note 21)	**1,165,415**	**1,390,796**	**–**	**–**	**–**	**–**	**–**	**2,556,211**
Lease contract receivable (Note 27)	**105,859**	**–**	**–**	**–**	**–**	**–**	**–**	**105,859**
Credit card accounts	**–**	**–**	**–**	**286,623**	**–**	**–**	**–**	**286,623**
	86,156,802	**24,481,228**	**7,287,123**	**11,647,469**	**644,614**	**–**	**–**	**130,217,236**
Less unearned and other deferred income	**676,591**	**–**	**–**	**–**	**–**	**–**	**–**	**676,591**
	85,480,211	**24,481,228**	**7,287,123**	**11,647,469**	**644,614**	**–**	**–**	**129,540,645**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**	**7,818,199**	**–**	**7,818,199**
Other receivables:								
Accounts receivable	**–**	**–**	**–**	**–**	**–**	**–**	**4,731,355**	**4,731,355**
Accrued interest receivable	**–**	**–**	**–**	**–**	**–**	**–**	**6,150,746**	**6,150,746**
Sales contract receivables	**–**	**–**	**–**	**–**	**–**	**–**	**4,633,079**	**4,633,079**
Miscellaneous	**–**	**–**	**–**	**–**	**–**	**–**	**561,034**	**561,034**
	85,480,211	**24,481,228**	**7,287,123**	**11,647,469**	**644,614**	**7,818,199**	**16,076,214**	**153,435,058**
Less allowance for credit losses (Note 15)	**4,512,157**	**70,731**	**129,653**	**545,143**	**14,743**	**3,958,931**	**4,066,852**	**13,298,210**
	₱80,968,054	**₱24,410,497**	**₱7,157,470**	**₱11,102,326**	**₱629,871**	**₱3,859,268**	**₱12,009,362**	**₱140,136,848**

Parent Company
December 31, 2011

	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱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

(Forward)

	Parent Company							
	December 31, 2011							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Unquoted debt securities	₱–	₱–	₱–	₱–	₱–	₱8,361,129	₱–	₱8,361,129
Other receivables:								
Accounts receivable	–	–	–	–	–	–	4,183,025	4,183,025
Accrued interest receivable	–	–	–	–	–	–	6,312,182	6,312,182
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

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

As of December 31, 2012 and 2011, 90.89% and 92.16%, respectively, of the total receivable from customers of the Group were subject to quarterly interest repricing. As of December 31, 2012 and 2011, 90.62% and 94.05%, 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 2.25% to 12.97% as of December 31, 2012 and from 2.55% to 9.00% as of December 31, 2011 for foreign currency-denominated receivables, and from 0.85% to 18.50% as of December 31, 2012 and from 5.55% to 15.00% as of December 31, 2011 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 1.76% to 15.00% and from 1.76% to 16.50% as of December 31, 2012 and 2011, respectively.

The EIR of ‘Receivable from customers’, ‘Unquoted debt instruments’ and ‘Sales contract receivables’ range from 2.25% to 12.97% as of December 31, 2012 and from 2.63% to 9.00% as of December 31, 2011 for foreign currency-denominated receivables, and from 0.85% to 47.40% as of December 31, 2012 and from 5.55% to 15.00% as of December 31, 2011 for peso-denominated receivables.

Unquoted debt instruments include the zero-coupon notes received by the Parent Company on October 15, 2004, 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 National Steel Corporation (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, 2012 and 2011, these notes had a carrying value of nil and ₱186.0 million, respectively.

As of December 31, 2012 and 2011, unquoted debt instruments 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, 2012 and 2011, the sinking fund amounted to ₱5.2 billion and ₱5.1 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, 2012 and 2011, the balance of these receivables amounted to ₱3.4 billion and ₱3.5 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 ₱3.3 billion, respectively. The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱262.5 million and ₱241.8 million as of December 31, 2012 and 2011, respectively. The remaining 40% 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					
	December 31, 2012		December 31, 2011		January 1, 2011	
	Carrying Amount	**%**	Carrying Amount	%	Carrying Amount	%
Loans and Receivables						
Receivable from customers:						
Primary target industry:						
Public administration and defense	**₱22,766**	**17.10**	₱21,617	18.71	₱7,951	8.36
Wholesale and retail	**21,496**	**16.15**	21,370	18.49	23,819	25.05
Transport, storage and communication	**17,051**	**12.81**	16,696	14.45	11,397	11.99
Electricity, gas and water	**18,180**	**13.66**	14,604	12.64	12,991	13.67
Manufacturing	**13,317**	**10.00**	13,215	11.44	10,146	10.67
Financial intermediaries	**10,207**	**7.67**	5,550	4.80	3,986	4.19
Agriculture, hunting and forestry	**2,899**	**2.18**	2,688	2.33	3,194	3.36
Secondary target industry:						
Real estate, renting and business activities	**11,434**	**8.59**	8,014	6.94	7,155	7.53
Construction	**2,349**	**1.77**	1,159	1.00	786	0.83
Others	**13,410**	**10.07**	10,637	9.20	13,642	14.35
	₱133,109	**100.00**	₱115,550	100.00	₱95,067	100.00

	Parent Company					
	December 31, 2012		December 31, 2011		January 1, 2011	
	Carrying Amount	**%**	Carrying Amount	%	Carrying Amount	%
Loans and Receivables						
Receivable from customers:						
Primary target industry:						
Public administration and defense	**₱22,739**	**17.46**	₱21,617	19.10	₱7,668	8.25
Wholesale and retail	**21,192**	**16.27**	21,140	18.67	23,165	24.92
Transport, storage and communication	**16,186**	**12.43**	16,147	14.26	11,397	12.26
Electricity, gas and water	**18,180**	**13.96**	14,604	12.90	12,991	13.97
Manufacturing	**13,228**	**10.16**	12,634	11.16	9,960	10.71
Financial intermediaries	**10,193**	**7.83**	5,520	4.88	3,857	4.15
Agriculture, hunting and forestry	**2,705**	**2.08**	2,619	2.31	3,153	3.39
Secondary target industry:						
Real estate, renting and business activities	**11,395**	**8.75**	7,998	7.07	6,347	6.83
Construction	**2,148**	**1.65**	990	0.87	786	0.85
Others	**12,251**	**9.41**	9,936	8.78	13,642	14.67
	₱130,217	**100.00**	₱113,205	100.00	₱92,966	100.00

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

	Consolidated					
	December 31, 2012		December 31, 2011		January 1, 2011	
	Amount	**%**	Amount	%	Amount	%
Secured:						
Real estate mortgage	**₱21,457,030**	**16.12**	₱20,363,457	17.62	₱13,584,215	14.29
Chattel mortgage	**4,336,447**	**3.26**	3,146,685	2.72	2,222,510	2.34
Bank deposit hold-out	**1,615,415**	**1.21**	2,640,111	2.28	2,381,335	2.50
Shares of stocks	**358,267**	**0.27**	358,596	0.31	493,888	0.52
Others	**21,660,562**	**16.27**	11,111,247	9.62	9,145,475	9.62
	49,427,721	**37.13**	37,620,096	32.55	27,827,423	29.27
Unsecured	**83,681,740**	**62.87**	77,929,712	67.45	67,239,223	70.73
	₱133,109,461	**100.00**	₱115,549,808	100.00	₱95,066,646	100.00

	Parent Company					
	December 31, 2012		December 31, 2011		January 1, 2011	
	Amount	**%**	Amount	%	Amount	%
Secured:						
Real estate mortgage	**₱21,435,750**	**16.46**	₱20,332,088	17.96	₱13,541,857	16.12
Chattel mortgage	**3,200,301**	**2.46**	2,824,504	2.50	2,230,005	3.26
Bank deposit hold-out	**1,612,914**	**1.24**	2,634,352	2.32	2,288,931	1.21
Shares of stocks	**358,267**	**0.28**	358,596	0.32	493,888	0.27
Others	**19,445,870**	**14.93**	9,223,956	8.15	7,452,451	16.27
	46,053,102	**35.37**	35,373,496	31.25	26,007,132	37.13
Unsecured	**84,164,134**	**64.63**	77,831,440	68.75	66,958,569	62.87
	₱130,217,236	**100.00**	₱113,204,936	100.00	₱92,965,701	100.00

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

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011	**December 31, 2012**	December 31, 2011	January 1, 2011
Secured	**₱3,801,846**	₱5,215,732	₱4,321,843	**₱3,801,846**	₱5,209,048	₱4,313,895
Unsecured	**2,685,591**	1,696,344	3,344,338	**2,662,759**	1,636,094	3,283,943
	₱6,487,437	₱6,912,076	₱7,666,181	**₱6,464,605**	₱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		
	2012	2011	2010	**2012**	2011	2010
Total NPLs	**₱6,487,437**	₱6,912,076	₱7,666,181	**₱6,464,605**	₱6,845,142	₱7,597,838
Less NPL fully covered by allowance for credit losses	**2,718,043**	2,341,141	2,757,358	**2,697,422**	2,341,141	2,643,936
	₱3,769,394	₱4,570,935	₱4,908,823	**₱3,767,183**	₱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, 2012 amounted to ₱2.6 billion and ₱2.5 billion, respectively. Restructured loans of the Group and the Parent Company as of December 31, 2011 amounted to ₱3.4 billion and ₱3.3 billion, respectively. Restructured loans of the Group and the Parent Company as of January 1, 2011 amounted to ₱2.9 billion.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Receivable from customers and sales contract receivables	**₱7,372,917**	₱7,245,830	₱6,618,284	**₱7,235,499**	₱7,127,101	₱6,572,548
Unquoted debt securities	**78,434**	275,699	355,017	**78,434**	275,699	355,017
	₱7,451,351	₱7,521,529	₱6,973,301	**₱7,313,933**	₱7,402,800	₱6,927,565

Interest income accrued on impaired loans and receivable amounted to ₱302.8 million in 2012, ₱373.3 million in 2011, and ₱354.6 million in 2010 (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, 2012 and 2011, Receivable from SPV is net of allowance for credit losses amounting to ₱258.8 million and ₱833.8 million (Note 15).

The more significant terms of the sale are as follows:

a. Certain NPAs of the Parent Company were 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.

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 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.

10. Investment Securities

This account consists of:

	Consolidated		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)
AFS investments:			
Government securities (Notes 16, 18, 22 and 30)	**₱55,558,527**	₱42,614,457	₱27,568,048
Other debt securities	**10,920,133**	9,391,518	6,434,689
Equity securities - net of allowance for impairment losses (Note 15)	**518,819**	317,833	528,519
	₱66,997,479	₱52,323,808	₱34,531,256
HTM investments:			
Government securities (Notes 15, 18 and 30)	**₱–**	₱–	₱32,739,615
Other debt securities	**–**	–	5,488,576
	₱–	₱–	₱38,228,191

	Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)
AFS investments:			
Government securities (Notes 16, 18, 22 and 30)	**₱53,822,929**	₱41,218,164	₱26,456,593
Other debt securities	**10,551,714**	9,012,310	6,071,476
Equity securities - net of allowance for impairment losses (Note 15)	**389,398**	198,503	411,272
	₱64,764,041	₱50,428,977	₱32,939,341
HTM investments:			
Government securities (Notes 15, 18 and 30)	**₱–**	₱–	32,651,512
Other debt securities	**–**	–	5,488,576
	₱–	₱–	₱38,140,088

As of December 31, 2012 and 2011, unquoted AFS equity securities amounted to ₱78.6 million and ₱161.9 million for the Group and the Parent Company, respectively. No impairment loss has been recognized on these securities in 2012 and 2011.

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 2.35% to 8.15% and from 0.98% to 5.23% for peso-denominated and foreign currency-denominated AFS investments, respectively, as of December 31, 2012. 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.

As of December 31, 2012 and 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 ₱3.5 billion and ₱4.5 billion, respectively.

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		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011 (As Restated)	2010 (As Restated)
AFS investments	**₱2,627,530**	₱1,776,577	₱1,036,740	**₱2,532,161**	₱1,691,357	₱946,388
HTM investments	**–**	1,756,145	2,411,037	**–**	1,755,621	2,410,142
Financial assets at FVPL	**608,224**	728,014	991,622	**608,224**	728,014	991,622
	₱3,235,754	₱4,260,736	₱4,439,399	**₱3,140,385**	₱4,174,992	₱4,348,152

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

	Consolidated			Parent Company		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011 (As Restated)	2010 (As Restated)
Financial assets at FVPL:						
Designated at FVPL	**₱31,240**	(₱135,378)	₱104,387	**₱31,240**	(₱135,378)	₱104,387
Derivatives	**194,247**	78,823	785,318	**194,247**	78,825	801,502
Held-for-trading	**449,744**	(32,164)	840,133	**440,660**	(32,288)	840,132
AFS investments	**4,287,934**	3,596,089	1,185,384	**4,205,426**	3,566,589	1,088,004
HTM investments	**–**	141,274	–	**–**	141,274	–
Financial liabilities at FVPL:						
Derivative liabilities	**(112,738)**	(113,162)	372,615	**(112,738)**	(113,162)	356,432
Designated at FVPL	**283,100**	37,575	(206,921)	**283,100**	37,575	(206,921)
	₱5,133,527	₱3,573,057	₱3,080,916	**₱5,041,935**	₱3,543,435	₱2,983,536

The movements in Net unrealized gains (losses) on AFS investments, gross of deferred tax are as follows:

	Consolidated		
	December 31, 2012	December 31, 2011 (As Restated)	January 1, 2011
Balance at the beginning of the year	**₱776,980**	(₱1,186,832)	(₱871,733)
Realized gains	**(4,287,934)**	(3,596,089)	(1,185,384)
Unrealized gains recognized in equity	**4,557,062**	5,559,901	870,285
Balance at end of year	**₱1,046,108**	₱776,980	(₱1,186,832)

	Parent Company		
	December 31, 2012	December 31, 2011 (As Restated)	January 1, 2011
Balance at the beginning of the year	**₱679,119**	(₱1,248,647)	(₱922,603)
Realized gains	**(4,205,426)**	(3,556,589)	(1,088,004)
Unrealized gains recognized in equity	**4,430,993**	5,484,355	761,960
Balance at end of year	**₱904,686**	₱679,119	(₱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 2012 and 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, 2012 and 2011, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged amounted to ₱817.1 million and ₱863.1 million, respectively.

Reclassification of Financial Assets

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, 2012 and 2011, the carrying value of the securities reclassified out of HTM investments to AFS investments amounted to ₱1.94 billion and ₱9.8 billion, respectively.

For the periods ended December 31, 2012 and 2011, the net unrealized gain reclassified from equity to profit or loss due to sale of AFS investments amounted to ₱341.5 million and ₱2.5 billion, respectively.

11. Property and Equipment

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

	Consolidated		
	December 31, 2012		
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Cost			
Balance at beginning of year	**₱3,042,550**	**₱354,065**	**₱3,396,615**
Additions	**269,349**	**131,910**	**401,259**
Disposals/others	**(190,801)**	**(27,446)**	**(218,247)**
Balance at end of year	**3,121,098**	**458,529**	**3,579,627**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**2,330,702**	**199,900**	**2,530,602**
Depreciation and amortization	**237,322**	**60,853**	**298,175**
Disposals/others	**(157,517)**	**(28,708)**	**(186,225)**
Balance at end of year	**2,410,507**	**232,045**	**2,642,552**
Net Book Value at End of Year	**₱710,591**	**₱226,484**	**₱937,075**

	Consolidated		
	December 31, 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

	Parent Company		
	December 31, 2012		
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Cost			
Balance at beginning of year	**₱2,638,258**	**₱251,243**	**₱2,889,501**
Additions	**207,446**	**126,137**	**333,583**
Disposals/others	**(99,087)**	**(4,173)**	**(103,260)**
Balance at end of year	**2,746,617**	**373,207**	**3,119,824**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**2,089,542**	**123,554**	**2,213,096**
Depreciation and amortization	**186,206**	**49,209**	**235,415**
Disposals/others	**(83,169)**	**(2,882)**	**(86,051)**
Balance at end of year	**2,192,579**	**169,881**	**2,362,460**
Net Book Value at End of Year	**₱554,038**	**₱203,326**	**₱757,364**

	Parent Company		
	December 31, 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

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

	December 31, 2012		
	Land	**Buildings**	**Total**
Appraised Value			
Balance at beginning of year	**₱11,295,469**	**₱6,870,978**	**₱18,166,447**
Additions	**1,000**	**302,068**	**303,068**
Disposals/others	**–**	**(280,931)**	**(280,931)**
Balance at end of year	**11,296,469**	**6,892,115**	**18,188,584**
Accumulated Depreciation			
Balance at beginning of year	**–**	**2,230,309**	**2,230,309**
Depreciation	**–**	**175,642**	**175,642**
Disposals/others	**–**	**(22,003)**	**(22,003)**
Balance at end of year	**–**	**2,383,948**	**2,383,948**
Allowance for Impairment Losses (Note 15)	**191,450**	**46,536**	**237,986**
Net Book Value at End of Year	**₱11,105,019**	**₱4,461,631**	**₱15,566,650**

	December 31, 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

The appraised value of land and building was determined by independent appraisers based on highest and best use of property being appraised.

Depreciation on the revaluation increment of the buildings amounted to ₱69.5 million in 2012, ₱74.8 million in 2011 and ₱86.3 million in 2010 for the Group and the Parent Company.

Had the land and buildings been carried at cost, the net book value of the land and buildings would have been ₱4.7 billion and ₱4.6 billion as of December 31, 2012 and 2011, respectively, for the Group and the Parent Company.

Depreciation and amortization consists of:

	Consolidated			**Parent Company**		
	2012	2011	2010	**2012**	2011	2010
Property and equipment	**₱473,817**	₱429,130	₱441,646	**₱411,057**	₱389,816	₱387,771
Investment properties (Note 13)	**227,802**	200,820	381,236	**225,768**	198,765	379,181
Other foreclosed properties (Note 14)	**11,616**	26,454	14,722	**5,728**	5,359	14,539
	₱713,235	₱656,404	₱837,604	**₱642,553**	₱593,940	₱781,491

As of December 31, 2012 and 2011, 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**	
	2012	2011	**2012**	2011
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**	218,331
PNB Italy - SpA	**–**	–	**176,520**	176,520

(Forward)

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
PNB Securities	**₱–**	₱–	**₱62,351**	₱62,351
PNB Forex, Inc.	**–**	–	**50,000**	50,000
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 Venture Capital Corporation (60% owned)	**5,061**	5,061	**5,061**	5,061
PNB Remittance Center, Ltd.	**–**	–	**–**	32,042
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	**7,776,756**	7,808,798
Accumulated equity in net earnings:				
Balance at beginning of year	**132,816**	63,109	**–**	–
Equity in net earnings for the year (Note 25)	**10,309**	68,955	**–**	–
Equity in net unrealized gain (loss) on AFS investments of an associate	**(6,795)**	752	**–**	–
Balance at end of year	**136,330**	132,816	**–**	–
Less allowance for impairment losses (Note 15)	**–**	–	**999,884**	503,154
	₱2,905,294	₱2,901,780	**₱6,776,872**	₱7,305,644

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, 2012 and 2011, 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 2012, 2011 and 2010, 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):

	2012	2011
Total assets	**₱8,402,405**	₱10,552,082
Total liabilities	**2,290,586**	4,034,827
Total revenues	**346,727**	375,071
Net income	**25,614**	174,873

13. Investment Properties

The composition of and movements in this account follow:

	Consolidated		
	December 31, 2012		
	Land	**Buildings and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱17,319,875**	**₱5,429,337**	**₱22,749,212**
Additions	**608,996**	**197,270**	**806,266**
Disposals/others	**(1,911,093)**	**(1,600,859)**	**(3,511,952)**
Balance at end of year	**16,017,778**	**4,025,748**	**20,043,526**
Accumulated Depreciation			
Balance at beginning of year	**–**	**2,645,744**	**2,645,744**
Depreciation (Note 11)	**–**	**227,802**	**227,802**
Disposals/others	**–**	**(760,873)**	**(760,873)**
Balance at end of year	**–**	**2,112,673**	**2,112,673**
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	**2,798,435**	**1,204,920**	**4,003,355**
Provision for (recovery from) impairment losses	**(161,725)**	**11,742**	**(149,983)**
Disposals/others	**205,454**	**(606,321)**	**(400,867)**
Balance at end of year	**2,842,164**	**610,341**	**3,452,505**
Net Book Value at End of Year	**₱13,175,614**	**₱1,302,734**	**₱14,478,348**

	Consolidated		
	December 31, 2011		
	Land	Buildings 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

	Parent Company		
	December 31, 2012		
	Land	**Buildings and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱17,319,875**	**₱5,327,412**	**₱22,647,287**
Additions	**608,996**	**197,270**	**806,266**
Disposals/others	**(1,911,092)**	**(1,600,001)**	**(3,511,093)**
Balance at end of year	**16,017,779**	**3,924,681**	**19,942,460**
Accumulated Depreciation			
Balance at beginning of year	**–**	**2,613,729**	**2,613,729**
Depreciation (Note 11)	**–**	**225,768**	**225,768**
Disposals/others	**–**	**(760,741)**	**(760,741)**
Balance at end of year	**–**	**2,078,756**	**2,078,756**
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	**2,798,435**	**1,204,920**	**4,003,355**
Provision for (recovery from) impairment losses	**(161,725)**	**11,742**	**(149,983)**
Disposals/others	**205,454**	**(606,321)**	**(400,867)**
Balance at end of year	**2,842,164**	**610,341**	**3,452,505**
Net Book Value at End of Year	**₱13,175,615**	**₱1,235,584**	**₱14,411,199**

	Parent Company		
	December 31, 2011		
	Land	Buildings 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

Investment properties include real properties foreclosed or acquired in settlement of loans. The fair value of the investment properties of the Parent Company as of December 31, 2012 and 2011 as determined by independent and/or in-house appraisers amounted to ₱21.9 billion and ₱26.2 billion, respectively. The fair value of the investment properties of the Group as of December 31, 2012 and 2011 as determined by independent and/or in-house appraisers amounted to ₱22.0 billion and ₱26.3 billion, respectively. 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 ₱437.2 million and ₱308.6 million, as of December 31, 2012 and 2011, 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 ₱39.2 million, ₱27.7 million, and ₱20.4 million in 2012, 2011, and 2010, 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 ₱242.5 million, ₱292.0 million, and ₱532.0 million in 2012, 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 ₱44.5 million, ₱27.7 million, and ₱20.4 million in 2012, 2011, and 2010, 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 ₱242.5 million, ₱292.0 million, and ₱532.0 million in 2012, 2011, and 2010, respectively.

14. **Other Assets**

This account consists of:

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)
Assets held by SPV	**₱2,223,506**	₱1,875,075	₱1,854,168	**₱–**	₱–	₱–
Real estate under JV agreements	**1,014,678**	2,419,610	2,358,301	**1,014,678**	2,419,610	2,358,301
Software costs	**376,055**	409,390	502,435	**371,505**	403,055	495,167
Deferred reinsurance premiums	**211,151**	230,685	194,275	**–**	–	–
Chattel properties-net	**116,159**	69,339	82,479	**112,006**	62,489	81,855
Prepaid expenses	**85,629**	116,981	78,157	**47,421**	90,361	62,703
Deferred charges	**81,400**	82,039	153,676	**81,400**	52,934	69,786
Stationaries and supplies	**34,547**	35,479	121,320	**33,150**	33,999	121,320
Documentary stamps on hand	**28,284**	78,908	83,078	**28,284**	78,908	83,078
Miscellaneous COCI	**808**	5,220	1,970	**808**	5,220	1,970
Sundry debits	**–**	86,445	68,685	**26,997**	86,327	68,685
Interoffice float	**–**	–	13,813	**–**	–	13,813
Miscellaneous (Note 26)	**281,598**	395,520	296,820	**236,606**	263,289	145,800
	4,453,815	5,804,691	5,809,177	**1,952,855**	3,496,192	3,502,478
Less allowance for impairment losses (Note 15)	**1,459,390**	1,907,303	1,328,050	**92,872**	518,566	587,400
	₱2,994,425	₱3,897,388	₱4,481,127	**₱1,859,983**	₱2,977,626	₱2,915,078

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.

As of December 31, 2012 and 2011, the net carrying value of real estate under JV amounted to ₱0.95 billion and ₱1.9 billion, respectively.

Miscellaneous
Miscellaneous assets of the Group include postages, refundable deposits 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, 2012 and 2011, the latest transacted price of the exchange trading right (as provided by the PSE) amounted to ₱8.5 million.

Software Costs

Movements in Software costs are as follows:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balance at beginning of year	**₱409,390**	₱502,435	**₱403,055**	₱495,167
Additions	**120,215**	69,122	**119,576**	66,416
Amortization (Note 25)	**(153,550)**	(162,167)	**(151,126)**	(158,528)
Balance at end of year	**₱376,055**	₱409,390	**₱371,505**	₱403,055

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

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

	Consolidated			Parent Company		
	December31, 2012	December 31, 2011 (As Restated)	January1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011	January 1, 2011
Balance at beginning of year:						
Property and equipment (Note 11)	**₱237,624**	₱209,142	₱234,314	**₱237,624**	₱209,142	₱234,314
Investments in subsidiaries and an associate (Note 12)	**–**	–	–	**503,154**	432,644	432,644
Investment properties (Note 13)	**4,003,355**	5,334,805	4,865,527	**4,003,355**	5,334,805	4,569,375
Other assets (Note 14)	**1,907,303**	1,328,050	817,495	**518,566**	587,400	310,805
	6,148,282	6,871,997	5,917,336	**5,262,699**	6,563,991	5,547,138
Provisions (reversals) during the year	**(451,791)**	359,540	2,095,982	**8,529**	(268,376)	2,136,361
Disposals, transfers and others	**(546,610)**	(1,083,255)	(1,141,321)	**(487,981)**	(1,032,916)	(1,119,508)
Balance at end of year:						
Property and equipment (Note 11)	**237,986**	237,624	209,142	**237,986**	237,624	209,142
Investments in subsidiaries and an associate (Note 12)	**–**	–	–	**999,884**	503,154	432,644
Investment properties (Note 13)	**3,452,505**	4,003,355	5,334,805	**3,452,505**	4,003,355	5,334,805
Other assets (Note 14)	**1,459,390**	1,907,303	1,328,050	**92,872**	518,566	587,400
	₱5,149,881	₱6,148,282	₱6,871,997	**₱4,783,247**	₱5,262,699	₱6,563,991

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

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011 (As Restated)	January1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011	January 1, 2011
Balance at beginning of year:						
Loans and receivables	**₱13,541,340**	₱13,046,309	₱13,097,095	**₱13,074,591**	₱12,710,967	₱12,728,730
Receivable from SPV	**–**	–	–	**833,848**	736,624	800,981
AFS investments	**927,488**	697,052	681,462	**927,488**	677,619	643,273
	14,468,828	13,743,361	13,778,557	**14,835,927**	14,125,210	14,172,984
Provisions during the year	**551,233**	1,028,082	303,790	**(47,682)**	1,084,050	272,457
Accretion, accounts charged off, transfers and others	**152,130**	(302,615)	(338,986)	**(302,779)**	(373,333)	(320,231)
Balance at end of year:						
Loans and receivables (Note 8)	**14,243,783**	13,541,340	13,046,309	**13,298,210**	13,074,591	12,710,967
Receivable from SPV (Note 9)	**–**	–	–	**258,848**	833,848	736,624
AFS investments (Note 10)	**928,408**	927,488	697,052	**928,408**	927,488	677,619
	₱15,172,191	₱14,468,828	₱13,743,361	**₱14,485,466**	₱14,835,927	₱14,125,210

Provision for impairment, credit and other losses consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Provision for impairment	**(₱451,791)**	₱359,540	₱2,095,982	**₱8,529**	(₱268,376)	₱2,136,361
Provision for credit losses	**551,233**	1,028,082	303,790	**(47,682)**	1,084,050	272,457
Provision for other losses (Note 32)	**834,259**	164,778	–	**834,259**	164,778	–
	₱933,701	₱1,552,400	₱2,399,772	**₱795,106**	₱980,452	₱2,408,818

Below is the breakdown of provision for (reversal of) credit losses by type of loans and receivable.

	Consoldiated								
	December 31, 2012			December 31, 2011			December 31, 2010		
	Individual Impairment	Collective Impairment	Total	Individual Impairment	Collective Impairment	Total	Individual Impairment	Collective Impairment	Total
Receivable from customers	₱277,248	₱240,000	₱517,248	₱422,008	₱77,899	₱499,907	(₱383,767)	₱53,867	(₱329,900)
Unquoted debt securities	186,299	–	186,299	240,431	–	240,431	675,114	–	675,114
Other receivables	(153,234)	–	(153,234)	37,875	–	37,875	(41,424)	–	(41,424)
	₱310,313	₱240,000	₱550,313	₱700,314	₱77,899	₱778,213	₱249,923	₱53,867	₱303,790

	Parent Company								
	December 31, 2012			December 31, 2011			December 31, 2010		
	Individual Impairment	Collective Impairment	Total	Individual Impairment	Collective Impairment	Total	Individual Impairment	Collective Impairment	Total
Receivable from customers	₱256,472	₱240,000	₱496,472	₱380,719	₱77,899	₱458,618	(₱497,299)	₱53,867	(₱443,432)
Unquoted debt securities	186,299	–	186,299	240,431	–	240,431	675,114	–	675,114
Other receivables	(156,373)	–	(156,373)	37,908	–	37,908	105,132	–	105,132
	₱286,398	₱240,000	₱526,398	₱659,058	₱77,899	₱736,957	₱282,947	₱53,867	₱336,814

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

	Consolidated							
	December 31, 2012							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Balance at beginning of year	₱4,653,994	₱89,648	₱74,998	₱586,329	₱14,858	₱3,772,632	₱4,348,881	₱13,541,340
Provisions (reversals) during the year	424,835	(18,748)	78,800	31,413	948	186,299	(153,234)	550,313
Accretion on impaired loans (Note 8)	(261,780)	(169)	(24,145)	(15,731)	(953)	–	–	(302,778)
Accounts charged off, transfers and others	(185,324)	–	–	(40,879)	(105)	–	681,216	454,908
Balance at end of year	₱4,631,725	₱70,731	₱129,653	₱561,132	₱14,748	₱3,958,931	₱4,876,863	₱14,243,783

	Consolidated							
	December 31, 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 (Note 8)	(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

	Parent Company							
	December 31, 2012							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Balance at beginning of year	₱4,371,740	₱89,648	₱74,998	₱527,603	₱14,745	₱3,772,632	₱4,223,225	₱13,074,591
Provisions (reversals) during the year	402,197	(18,748)	78,800	33,271	952	186,299	(156,373)	526,398
Accretion on impaired loans (Note 8)	(261,780)	(169)	(24,145)	(15,731)	(954)	–	–	(302,779)
Balance at end of year	₱4,512,157	₱70,731	₱129,653	₱545,143	₱14,743	₱3,958,931	₱4,066,852	₱13,298,210

	Parent Company							
	December 31, 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 (Note 8)	(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

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

	Consolidated					
	December 31, 2012		December 31, 2011 (As Restated)		January 1, 2011 (As Restated)	
	AFS Investments -Equity Securities	**Receivable from SPV**	AFS Investments- Equity Securities	Receivable from SPV	AFS Investments- Equity Securities	Receivable from SPV
Balance at beginning of year	**₱927,488**	**₱–**	₱697,052	₱–	₱681,462	₱–
Provisions during the year	**920**	**–**	249,869	–	–	–
Disposals, transfers and others	**–**	**–**	(19,433)	–	15,590	–
Balance at end of year	**₱928,408**	**₱–**	₱927,488	₱–	₱697,052	₱–

	Parent Company			
	December 31, 2012		December 31, 2011	
	AFS Investments -Equity Securities	**Receivable from SPV**	AFS Investments- Equity Securities	Receivable from SPV
Balance at beginning of year	**₱927,488**	**₱833,848**	₱677,619	₱736,624
Provisions (reversals) during the year	**920**	**(575,000)**	249,869	97,224
Balance at end of year	**₱928,408**	**₱258,848**	₱927,488	₱833,848

16. Deposit Liabilities

Of the total deposit liabilities of the Parent Company, ₱12.9 billion and ₱11.1 billion are noninterest-bearing as of December 31, 2012 and 2011, respectively. Remaining deposit liabilities generally earned annual fixed interest rates ranging from 0. 09% to 2.55% in 2012 and from 0.20% to 7.00% in 2011 for foreign currency-denominated deposit liabilities, and from 0.25% to 4.32% in 2012 and from 0.50% to 10.00% in 2011 for peso-denominated deposit liabilities.

On March 29, 2012, BSP Circular No. 753 was issued providing unification of the statutory and liquidity reserve requirement, non-remuneration of the unified reserve requirement, exclusion of vault cash and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

As of December 31, 2012, under existing BSP regulations, non-FCDU deposit liabilities of the Group are subject to reserves equivalent to 18.00%.

As of December 31, 2011, under existing BSP regulations, non-FCDU deposit liabilities of the Group are subject to liquidity reserves equivalent to 11.00% and statutory reserves equivalent to 10.00%. Available reserves follow:

	2012	2011
Due from BSP	**₱36,531,047**	₱37,513,558
AFS investments	**6,965,950**	4,559,997
Time loan unquoted securities	**3,092,529**	3,096,485
Cash and other cash items	**–**	4,166,007
	₱46,589,526	₱49,336,047

As of December 31, 2012 and 2011, the Parent Company was in compliance with such regulations.

Time deposit of the Group and the Parent Company includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs):

5.18% ₱3.10 Billion LTNCD
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 the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

6.50% ₱3.25 Billion LTNCD
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		
	2012	2011	2010	**2012**	2011	2010
Savings	**₱2,556,648**	₱3,255,308	₱2,703,177	**₱2,556,682**	₱3,255,308	₱2,703,177
LTNCDs	**380,515**	236,251	216,328	**380,515**	236,251	216,328
Time	**90,991**	369,254	343,656	**102,662**	368,640	355,703
Demand	**71,628**	150,642	178,672	**72,657**	150,642	178,672
	₱3,099,782	₱4,011,455	₱3,441,833	**₱3,112,516**	₱4,010,841	₱3,453,880

In 2012, 2011 and 2010, interest expense on LTNCDs include amortization of transaction costs amounting to ₱9.5 million, ₱14.6 million, and ₱5.1 million, respectively.

17. Financial Liabilities at Fair Value Through Profit or Loss

This account, both for Group and Parent Company, consists of :

	December 31, 2012	December 31, 2011
Designated at FVPL	**₱6,196,070**	₱6,479,170
Derivative liabilities (Note 22)	**283,751**	171,013
	₱6,479,821	₱6,650,183

Financial liability designated at FVPL represents the subordinated note issued in 2008. On June 19, 2008, the Parent Company issued ₱6.0 billion subordinated notes due in 2018 (2008 Notes). The subordinated note is part of a group of financial instruments that together are managed on a fair value basis, in accordance with the Parent Company'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, 2012 and 2011, 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	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Bills payable to:				
BSP and local banks	**₱6,998,633**	₱4,413,379	**₱6,940,295**	₱2,902,338
Foreign banks	**2,870,946**	1,110,136	**2,571,194**	881,110
Others	**3,173,463**	2,800,450	**3,173,463**	3,400,450
	13,043,042	8,323,965	**12,684,952**	7,183,898
Acceptances outstanding	**33,859**	134,460	**33,859**	134,460
	₱13,076,901	₱8,458,425	**₱12,718,811**	₱7,318,358

As of December 31, 2012, the annual interest rates range from 0.06% to 1.77% for foreign currency-denominated borrowings, and from 0.03% to 12.00% for peso-denominated borrowings of the Group and of the Parent Company.

As of December 31, 2011, 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.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.6 billion and ₱1.7 billion as of December 31, 2012 and 2011, respectively (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, 2012 and 2011, bills payable with a carrying value of ₱3.0 billion and ₱3.3 billion is secured by a pledge of certain AFS investments with face value of ₱2.8 billion and ₱3.0 billion, respectively. 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		
	2012	2011	2010	**2012**	2011	2010
Subordinated debt*	**₱1,091,512**	₱1,102,495	₱1,083,585	**₱1,091,512**	₱1,102,495	₱1,083,585
Bills payable	**188,603**	149,104	235,277	**132,306**	107,999	189,329
Others	**5,005**	5,650	10,881	**3,872**	4,634	7,867
	₱1,285,120	₱1,257,249	₱1,329,743	**₱1,227,690**	₱1,215,128	₱1,280,781

* 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	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Interest	**₱1,987,231**	₱2,005,487	**₱1,988,623**	₱2,003,056
Employee benefits	**497,103**	428,158	**496,807**	428,158
PDIC	**264,295**	239,384	**264,294**	239,384
Other taxes and licenses	**170,798**	55,359	**99,756**	52,181
Income taxes	**149,050**	242,169	**147,911**	220,803
Other expenses	**994,863**	1,010,661	**871,290**	839,352
	₱4,063,340	₱3,981,218	**₱3,868,681**	₱3,782,934

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

20. **Subordinated Debt**

5.88% ₱3.5 Billion Subordinated Notes
On May 9, 2012 , the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital.

The Parent Company issued ₱3.5 billion, 5.88% subordinated notes due in 2022, pursuant to the authority granted by the BSP to the Bank on May 27, 2011. EIR on this note is 6.04%. Among the significant terms and conditions of the issuance of such 2012 Notes are:

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

(b) The 2012 Notes bear interest at the rate of 5.875% per annum from and including May 09, 2012 to but excluding May 09, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and June of each year, commencing on May 09, 2012. Unless the 2012 Notes are previously redeemed, at their principal amount on Maturity date or May 09, 2022. The stepped-up interest will be payable quarterly in arrears on 9th of August, November, February and May of each year, commencing on May 09, 2012;

(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 2012 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 2012 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2012 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 2012 Notes.

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. 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, 2012 and 2011, subordinated debt is net of unamortized transaction cost of ₱61.2 million and ₱47.5 million, respectively.

In 2012, 2011 and 2010, amortization of transaction costs amounting to ₱12.2 million, ₱18.0 million and ₱19.4 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**		
	December31, 2012	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)	**December31, 2012**	December 31, 2011	January 1, 2011
Accounts payable	**₱4,693,074**	₱3,659,636	₱3,917,375	**₱4,513,263**	₱3,648,395	₱3,705,783
Insurance contract liabilities	**2,623,901**	1,612,946	1,800,984	**–**	–	–
Bills purchased - contra (Note 8)	**2,553,891**	2,296,039	2,132,659	**2,553,891**	2,296,039	2,132,659
Provisions (Note 32)	**1,575,433**	874,950	710,172	**1,575,433**	874,950	710,172
Retirement liability (Note 26)	**1,400,235**	1,409,525	1,240,693	**1,386,796**	1,357,949	1,234,265
Manager's checks and demand drafts outstanding	**623,621**	475,041	963,332	**623,621**	475,041	963,332
Deferred reinsurance premiums	**509,488**	458,178	353,940	**–**	–	–
Deposits on lease contracts	**445,152**	388,243	309,314	**–**	–	–
Due to Treasurer of the Philippines	**290,649**	220,053	253,619	**290,649**	220,053	253,619
Other dormant credits	**252,218**	275,030	287,562	**252,218**	275,030	287,562
Deferred credits	**181,473**	207,484	328,531	**181,473**	200,663	233,309
Payment order payable	**174,406**	152,810	166,986	**174,406**	152,810	166,986
Due to other banks	**142,212**	98,671	567,831	**351,061**	346,159	319,253
Withholding tax payable	**127,123**	137,215	136,301	**119,687**	130,224	130,204
Due to BSP	**102,616**	102,965	104,844	**102,616**	102,965	104,844
Margin deposits and cash letters of credit	**31,358**	212,390	59,094	**31,358**	212,390	59,094
Liabilities held by SPV	**11,945**	29,640	86,619	**–**	–	–
Miscellaneous (Note 28)	**1,107,598**	1,405,149	502,270	**805,864**	1,178,953	225,721
	₱16,846,393	₱14,015,965	₱13,922,126	**₱12,962,336**	₱11,471,621	₱10,526,803

Miscellaneous liabilities of the Group include interoffice floats, contribution and payments for compensation premiums and remittance - related payable.

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, 2012 and 2011 and January 1, 2011 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2012			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***
Freestanding derivatives:				
Currency forwards				
BUY:				
JPY	**₱–**	**₱3,706**	**0.49**	**300,000**
USD	**20**	**185,391**	**42.01**	**165,043**
EUR	**–**	**2**	**54.48**	**63**
SGD	**74**	**–**	**33.65**	**1,958**
SELL				
USD	**25,214**	**10,400**	**41.11**	**285,064**
EUR	**–**	**43**	**54.18**	**800**
SGD	**–**	**73**	**33.65**	**1,958**
AUD	**430**	**–**	**43.15**	**700**
JPY	**983**	**573**	**0.48**	**540,000**
CHF	**10**	**24**	**45.05**	**1,050**
GBP	**133**	**23**	**66.11**	**1,790**
CAD	**208**	**–**	**41.39**	**510**
HKD	**–**	**2**	**5.30**	**200**
SEK	**–**	**4**	**6.32**	**300**
Cross currency swaps	**201,970**	**–**		**86,000**
Interest rate swaps (Php)	**162,556**	**83,510**		**6,109,000**
Warrants	**59,044**	**–**		**262**
Embedded derivatives:				
Credit default swaps (USD)	**3,859**	**–**		**47,500**
	₱454,501	**₱283,751**		

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

	December 31, 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

(Forward)

	December 31, 2011			
	Assets	Liabilities	Average Forward Rate	Notional Amount*
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.

	January 1, 2011 (As Restated)			
	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	124,367	–		147,500
	₱910,532	₱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 with terms to maturities of two years. The aggregate notional amount of these cross currency swaps is US$79.0 million or ₱3.4 billion while its positive (negative) fair value amounted to ₱190.3 million and (₱32.3 million) as of December 31, 2012 and 2011, respectively.

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 and will mature on June 17, 2013. Proceeds of the 2011 Notes were swapped for USD. As of December 31, 2012 and 2011, its positive (negative) fair value amounted to ₱11.7 million and (₱7.5 million), respectively. In order to fulfill collateral requirements, the Parent Company has pledged its cash amounting to US$2.0 million or ₱82.1 million and US$2.0 million or ₱85.4 million as of December 31, 2012 and 2011.

As of December 31, 2012 and 2011, the Parent Company holds 261,515 shares of ROP Warrants Series B1 at their fair value of US$1.44 million and US$2.09 million, respectively.

Embedded derivatives that have been bifurcated are credit derivatives in structured notes with a notional reference of USD47.5 million and a positive fair value of ₱3.86 million as of December 31, 2012 and a notional reference of USD87.5 million with a positive fair value of ₱41.8 million as of December 31, 2011, and notional reference of USD147.5 million and a positive fair value of ₱124.4 million as of January 1, 2011.

The table below shows the rollforward analysis of net derivatives assets (liabilities) as of December 31, 2012, 2011 and January 1, 2010 (in millions):

	2012	2011	2010
Balance at beginning of year	**₱283**	₱755	₱1,090
Changes in fair value (Note 10)	**82**	(34)	1,158
Settlements	**(194)**	(438)	(1,395)
	₱171	₱283	₱853

The changes in fair value of the derivatives are included in ‘Trading and investments securities gains - net’ in the statement of income.

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		
	December 31, 2012		
	Less than Twelve Months	**Over Twelve Months**	**Total**
Financial Assets			
COCI	**₱5,599,088**	**₱–**	**₱5,599,088**
Due from BSP	**37,175,399**	**–**	**37,175,399**
Due from other banks	**4,042,769**	**–**	**4,042,769**
Interbank loans receivable	**11,498,756**	**–**	**11,498,756**
Securities held under agreements to resell	**18,300,000**	**–**	**18,300,000**
Financial assets at FVPL	**4,023,065**	**–**	**4,023,065**
Loans receivables - gross (Note 8)	**45,314,788**	**87,794,673**	**133,109,461**
Unquoted debt securities classified as loans (Note 8)	**3,997,264**	**3,820,935**	**7,818,199**
Other receivables - gross (Note 8)	**18,934,249**	**–**	**18,934,249**
AFS investments - gross (Note 10)	**4,449,652**	**63,476,235**	**67,925,887**
Miscellaneous COCI (Note 14)	**808**	**–**	**808**
	153,335,838	**155,091,843**	**308,427,681**

(Forward)

	Consolidated		
	December 31, 2012		
	Less than Twelve Months	**Over Twelve Months**	**Total**
Nonfinancial Assets			
Property and equipment - net			
At cost	**₱–**	**₱937,075**	**₱937,075**
At appraised value	–	**15,566,650**	**15,566,650**
Investments in subsidiaries and an associate - net	–	**2,905,294**	**2,905,294**
Investment properties - net	–	**14,478,348**	**14,478,348**
Deferred tax assets	–	**1,780,682**	**1,780,682**
Other assets - gross (Note 14)*	**2,185,051**	**2,267,957**	**4,453,008**
	2,185,051	**37,936,006**	**40,121,057**
Less: Allowance for impairment and credit losses (Note 15)	–	–	**16,631,582**
Unearned and other deferred income (Note 8)	–	–	**910,617**
	–	–	**17,542,199**
	₱155,520,889	**₱193,027,849**	**₱331,006,539**
Financial Liabilities			
Deposit liabilities	**₱223,150,780**	**₱17,703,597**	**₱240,854,377**
Financial liabilities at FVPL	**283,751**	**6,196,070**	**6,479,821**
Bills and acceptances payable	**12,768,365**	**308,536**	**13,076,901**
Subordinated debt	–	**9,938,816**	**9,938,816**
Accrued interest payable (Note 19)	**1,987,231**	–	**1,987,231**
Other liabilities (Note 21):			
Accounts payable	**4,693,074**	–	**4,693,074**
Bills purchased - contra	**2,553,891**	–	**2,553,891**
Insurance contract liabilities	**2,623,901**	–	**2,623,901**
Due to other banks	**142,212**	–	**142,212**
Managers' checks and demand drafts outstanding	**623,621**	–	**623,621**
Payment order payable	**174,406**	–	**174,406**
Deposit on lease contracts	**180,700**	**264,452**	**445,152**
Due to TOP	–	**290,649**	**290,649**
Margin deposits and cash letters of credit	**31,358**	–	**31,358**
Due to BSP	**102,616**	–	**102,616**
Other liabilities	**427,542**	**983,499**	**1,411,041**
	249,743,448	**35,685,619**	**285,429,067**
Nonfinancial Liabilities			
Accrued taxes and other expenses	**706,964**	**1,369,145**	**2,076,109**
Other liabilities**	**1,406,852**	**2,347,620**	**3,754,472**
	2,113,816	**3,716,765**	**5,830,581**
	₱251,857,264	**₱39,402,384**	**₱291,259,648**

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes withholding taxes payable

	Consolidated		
	December 31, 2011 (As Restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,404,110	₱–	₱5,404,110
Due from BSP	38,152,795	–	38,152,795
Due from other banks	6,423,981	–	6,423,981
Interbank loans receivable	17,097,648	–	17,097,648
Securities held under agreements to resell	18,300,000	–	18,300,000
Financial assets at FVPL	2,824,994	4,050,671	6,875,665
Loans receivables - gross (Note 8)	40,972,474	74,577,334	115,549,808
Unquoted debt securities classified as loans (Note 8)	4,362,294	3,998,835	8,361,129
Other receivables - gross (Note 8)	16,789,118	–	16,789,118
AFS investments - gross (Note 10)	1,727,769	51,523,527	53,251,296
Miscellaneous COCI (Note 14)	5,220	–	5,220
	152,060,403	134,150,367	286,210,770
Nonfinancial Assets			
Property and equipment - net			
At cost	–	866,013	866,013
At appraised value	–	15,698,514	15,698,514
Investments in subsidiaries and an associate - net	–	2,901,780	2,901,780
Investment properties - net	–	16,100,113	16,100,113
Deferred tax assets	–	1,775,789	1,775,789
Other assets - gross (Note 14)*	3,095,195	2,704,276	5,799,471
	3,095,195	40,046,485	43,141,680
Less: Allowance for impairment and credit losses (Note 15)	–	–	16,376,131
Unearned and other deferred income (Note 8)	–	–	909,680
	–	–	17,285,811
	₱155,155,598	₱174,196,852	₱312,066,639
Financial Liabilities			
Deposit liabilities	₱219,183,534	₱18,350,404	₱237,533,938
Financial liabilities at FVPL	171,013	6,479,170	6,650,183
Bills and acceptances payable	7,129,369	1,329,056	8,458,425
Subordinated debt	–	6,452,473	6,452,473
Accrued interest payable (Note 19)	450,070	1,555,417	2,005,487
Other liabilities (Note 21):			
Accounts payable	4,184,550	–	4,184,550
Bills purchased - contra	2,296,039	–	2,296,039
Insurance contract liabilities	1,484,193	–	1,484,193
Due to other banks	98,671	–	98,671
Managers' checks and demand drafts outstanding	475,041	–	475,041
Payment order payable	152,810	–	152,810
Deposit on lease contracts	–	356,597	356,597
Due to TOP	–	220,053	220,053
Margin deposits and cash letters of credit	212,390	–	212,390
Due to BSP	102,965	–	102,965
Other liabilities	54,888	–	54,888
	235,995,533	34,743,170	270,738,703
Nonfinancial Liabilities			
Accrued taxes and other expenses	568,260	1,407,471	1,975,731
Other liabilities**	1,806,132	2,571,636	4,377,768
	2,374,392	3,979,107	6,353,499
	₱238,369,925	₱38,722,277	₱277,092,202

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes withholding taxes payable

	Consolidated		
	January 1, 2011 (As Restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,457,186	₱–	₱5,457,186
Due from BSP	24,285,986	–	24,285,986
Due from other banks	5,141,549	–	5,141,549
Interbank loans receivable	12,691,967	–	12,691,967
Securities held under agreements to resell	6,800,000	–	6,800,000
Financial assets at FVPL	10,709,620	5,271,027	15,980,647
Loans receivables - gross (Note 8)	41,533,614	53,533,032	95,066,646
Unquoted debt securities classified as loans (Note 8)	2,432,733	8,792,745	11,225,478
Other receivables - gross (Note 8)	17,665,062	–	17,665,062
AFS investments - gross (Note 9)	1,455,663	33,772,645	35,228,308
HTM investments (Note 10)	3,529,989	34,698,202	38,228,191
Miscellaneous COCI (Note 14)	1,970	–	1,970
	131,705,339	136,067,651	267,772,990
Nonfinancial Assets			
Property and equipment - net			
At cost	–	815,497	815,497
At appraised value	–	15,816,443	15,816,443
Investments in subsidiaries and an associate - net	–	2,832,073	2,832,073
Investment properties - net	–	17,913,198	17,913,198
Deferred tax assets	–	1,829,430	1,829,430
Other assets - gross (Note 14)*	3,288,631	2,518,576	5,807,207
	3,288,631	41,725,217	45,013,848
Less: Allowance for impairment and credit losses (Note 15)	–	–	15,071,411
Unearned and other deferred income (Note 8)	–	–	595,399
	–	–	15,666,810
	₱134,993,970	₱177,792,868	₱297,120,028
Financial Liabilities			
Deposit liabilities	₱213,502,650	₱12,933,234	₱226,435,884
Financial liabilities at FVPL	57,852	6,516,744	6,574,596
Bills and acceptances payable	10,352,330	1,651,808	12,004,138
Subordinated debt	–	5,486,735	5,486,735
Accrued interest payable (Note 19)	615,534	1,555,418	2,170,952
Other liabilities(Note 21):			
Accounts payable	3,917,375	–	3,917,375
Bills purchased - contra	2,132,659	–	2,132,659
Insurance contract liabilities	1,800,984		1,800,984
Due to other banks	567,831	–	567,831
Managers' checks and demand drafts outstanding	963,332	–	963,332
Payment order payable	166,986	–	166,986
Deposit on lease contracts	–	309,314	309,314
Due to TOP	–	253,619	253,619
Margin deposits and cash letters of credit	59,094	–	59,094
Due to BSP	104,844	–	104,844
Other liabilities	287,562	–	287,562
	234,529,033	28,706,872	263,235,905
Nonfinancial Liabilities			
Accrued taxes and other expenses	666,278	1,487,733	2,154,011
Other liabilities**	1,499,680	1,858,846	3,358,526
	2,165,958	3,346,579	5,512,537
	₱236,694,991	₱32,053,451	₱268,748,442

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes withholding taxes payable

	Parent Company		
	December 31, 2012		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,548,325	₱–	₱5,548,325
Due from BSP	36,531,047	–	36,531,047
Due from other banks	3,293,782	–	3,293,782
Interbank loans receivable	11,498,756	–	11,498,756
Securities held under agreements to resell	18,300,000	–	18,300,000
Financial assets at FVPL	3,965,098	–	3,965,098
Loans receivables - gross (Note 8)	44,116,062	86,101,174	130,217,236
Unquoted debt securities classified as loans (Note 8)	3,997,264	3,820,935	7,818,199
Other receivables - gross (Note 8)	16,076,214	–	16,076,214
AFS investments - gross (Note 10)	4,423,628	61,268,821	65,692,449
Miscellaneous COCI (Note 14)	808	–	808
	147,750,984	151,190,930	298,941,914
Nonfinancial Assets			
Property and equipment - net			
At cost	–	757,364	757,364
At appraised value	–	15,566,650	15,566,650
Investments in subsidiaries and an associate - net	–	6,776,872	6,776,872
Investment properties - net	–	14,411,199	14,411,199
Deferred tax assets	–	1,673,718	1,673,718
Other assets - gross (Note 14)*	375,255	1,576,792	1,952,047
	375,255	40,762,595	41,137,850
Less: Allowance for impairment and credit losses (Note 15)	–	–	14,319,490
Unearned and other deferred income (Note 8)	–	–	676,591
	–	–	14,996,081
	₱148,126,239	₱191,953,525	₱325,083,683
Financial Liabilities			
Deposit liabilities	₱223,703,078	₱17,703,597	₱241,406,675
Financial liabilities at FVPL	283,751	6,196,070	6,479,821
Bills and acceptances payable	12,717,585	1,226	12,718,811
Subordinated debt	–	9,938,816	9,938,816
Accrued interest payable (Note 19)	1,988,623	–	1,988,623
Other liabilities (Note 21):			
Accounts payable	4,513,263	–	4,513,263
Bills purchased - contra	2,553,891	–	2,553,891
Due to other banks	351,061	–	351,061
Managers' checks and demand drafts outstanding	623,621	–	623,621
Payment order payable	174,406	–	174,406
Due to TOP	–	290,649	290,649
Margin deposits and cash letters of credit	31,358	–	31,358
Due to BSP	102,616	–	102,616
Other liabilities	427,540	983,498	1,411,038
	247,470,793	35,113,856	282,584,649
Nonfinancial Liabilities			
Accrued taxes and other expenses	590,100	1,289,958	1,880,058
Other liabilities**	570,273	2,340,160	2,910,433
	1,160,373	3,630,118	4,790,491
	₱248,631,166	₱38,743,974	₱287,375,140

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes withholding taxes payable

	Parent Company		
	December 31, 2011 (As restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,303,112	₱–	₱5,303,112
Due from BSP	37,492,594	–	37,492,594
Due from other banks	4,906,698	–	4,906,698
Interbank loans receivable	17,097,648	–	17,097,648
Securities held under agreements to resell	18,300,000	–	18,300,000
Financial assets at FVPL	2,822,537	4,050,671	6,873,208
Loans receivables - gross (Note 8)	39,636,745	73,568,191	113,204,936
Unquoted debt securities classified as loans (Note 8)	4,362,294	3,998,835	8,361,129
Other receivables - gross (Note 8)	14,866,702	–	14,866,702
Receivable from SPV - net	–	–	–
AFS investments - gross (Note 10)	1,690,359	49,666,106	51,356,465
HTM investments	–	–	–
Miscellaneous COCI (Note 14)	5,220	–	5,220
	146,483,909	131,283,803	277,767,712
Nonfinancial Assets			
Property and equipment - net			
At cost	–	676,405	676,405
At appraised value	–	15,698,514	15,698,514
Investments in subsidiaries and an associate - net	–	7,305,644	7,305,644
Investment properties - net	–	16,030,203	16,030,203
Deferred tax assets	–	1,696,698	1,696,698
Other assets - gross (Note 14)*	587,674	2,903,298	3,490,972
	587,674	44,310,762	44,898,436
Less: Allowance for impairment and credit losses (Note 15)	–	–	14,520,645
Unearned and other deferred income (Note 8)	–	–	705,225
	–	–	15,225,870
	₱147,071,583	₱175,594,565	₱307,440,278
Financial Liabilities			
Deposit liabilities	₱220,129,913	₱18,331,774	₱238,461,687
Financial liabilities at FVPL	171,013	6,479,170	6,650,183
Bills and acceptances payable	5,599,598	1,718,760	7,318,358
Subordinated debt	–	6,452,473	6,452,473
Accrued interest payable (Note 19)	447,639	1,555,417	2,003,056
Other liabilities (Note 21):			
Accounts payable	4,044,557	–	4,044,557
Bills purchased - contra	2,296,039	–	2,296,039
Insurance contract liabilities			
Due to other banks	346,159	–	346,159
Managers' checks and demand drafts outstanding	475,041	–	475,041
Payment order payable	152,810	–	152,810
Deposit on lease contracts	–	–	–
Due to TOP	–	220,053	220,053
Margin deposits and cash letters of credit	212,390	–	212,390
Due to BSP	102,965	–	102,965
Other liabilities	54,888	–	54,888
	234,033,012	34,757,647	268,790,659
Nonfinancial Liabilities			
Accrued taxes and other expenses	815,232	1,839,595	2,654,827
Other liabilities**	1,033,138	1,658,630	2,691,768
	1,848,370	3,498,225	5,346,595
	₱235,881,382	₱38,255,872	₱274,137,254

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes withholding taxes payable

	Parent Company		
	January 1, 2011 (As Restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,309,611	₱–	₱5,309,611
Due from BSP	24,273,986	–	24,273,986
Due from other banks	3,530,188	–	3,530,188
Interbank loans receivable	12,245,259	–	12,245,259
Securities held under agreements to resell	6,800,000	–	6,800,000
Financial assets at FVPL	15,966,898	–	15,966,898
Loans receivables - gross (Note 8)	40,973,150	51,992,552	92,965,702
Unquoted debt securities classified as loans (Note 8)	2,432,733	8,792,745	11,225,478
Other receivables - gross (Note 8)	15,477,394	–	15,477,394
Receivable from SPV - net	–	624,450	624,450
AFS investments - gross (Note 10)	1,377,671	32,239,290	33,616,961
HTM investments	3,529,989	34,610,098	38,140,087
Miscellaneous COCI (Note 14)	1,970	–	1,970
	131,918,849	128,259,135	260,177,984
Nonfinancial Assets			
Property and equipment - net			
At cost	–	658,865	658,865
At appraised value	–	15,816,443	15,816,443
Investments in subsidiaries and an associate - net	–	7,325,446	7,325,446
Investment properties - net	–	17,841,232	17,841,232
Deferred tax assets	–	1,738,583	1,738,583
Other assets - gross (Note 14)*	1,590,772	1,767,246	3,358,018
	1,590,772	45,147,815	46,738,587
Less: Allowance for impairment and credit losses (Note 15)	–	–	13,418,052
Unearned and other deferred income (Note 8)	–	–	415,872
	–	–	13,833,924
	₱133,509,621	₱173,406,950	₱293,082,647
Financial Liabilities			
Deposit liabilities	₱213,954,498	₱12,933,234	₱226,887,732
Financial liabilities at FVPL	57,852	6,516,744	6,574,596
Bills and acceptances payable	11,449,021	1,407,640	12,856,661
Subordinated debt	–	5,486,735	5,486,735
Accrued interest payable (Note 19)	614,908	1,555,418	2,170,326
Other liabilities (Note 21):			
Accounts payable	3,705,782	–	3,705,782
Bills purchased - contra	2,132,659	–	2,132,659
Insurance contract liabilities			
Due to other banks	319,253	–	319,253
Managers' checks and demand drafts outstanding	963,332	–	963,332
Payment order payable	166,986	–	166,986
Deposit on lease contracts			
Due to TOP	–	253,619	253,619
Margin deposits and cash letters of credit	59,094	–	59,094
Due to BSP	104,844	–	104,844
Other liabilities	287,563	–	287,563
	233,815,792	28,153,390	261,969,182
Nonfinancial Liabilities			
Accrued taxes and other expenses	953,906	1,694,170	2,648,076
Other liabilities**	589,235	1,234,265	1,823,500
	1,543,141	2,928,435	4,471,576
	₱235,358,933	₱31,081,825	₱266,440,758

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes withholding taxes 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 on 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 on a one (1) preferred share for one (1) common share basis;
(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 other government agency or GOCC's; and
(d) With rights to subscribe to additional new preferred shares with all of the features described above, in the event that the Bank shall offer new common shares for subscription, in such number corresponding to the number of shares being offered.

As of December 31, 2012 and 2011, 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 ₱25.0 billion divided into 250,000,000 common shares with a par value of ₱100.00 per share to ₱15.0 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 ₱15.0 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, 2012, 2011 and 2010, the Parent Company had 30,825, 31,301 and 31,732 stockholders, respectively.

Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.8 billion as of December 31, 2012 and 2011 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, which is based on consolidated CAR combined credit, market and operational risks (BSP Circular No. 538), as of December 31, 2012, 2011 and 2010 as reported to the BSP are shown in the table below (amounts in millions).

	2012		2011		2010	
Consolidated	**Actual**	**Required**	Actual	Required	Actual	Required
Tier 1 capital	**₱26,508.6**		₱30,500.9		₱27,242.3	
Tier 2 capital	**14,707.2**		15,065.8		14,226.1	
Gross qualifying capital	**41,215.8**		45,566.7		41,468.4	
Less required deductions	**3,122.7**		159.5		0.4	
Total qualifying capital	**₱38,093.1**	**₱21,023.9**	₱45,407.2	₱20,969.1	₱41,468.0	₱21,365.7
Risk weighted assets	**₱210,239.2**		₱209,691.0		₱213,656.5	
Tier 1 capital ratio	**11.87%**		14.51%		12.75%	
Total capital ratio	**18.12%**		21.65%		19.41%	

Parent Company	2012 Actual	2012 Required	2011 Actual	2011 Required	2010 Actual	2010 Required
Tier 1 capital	**₱27,398.5**		₱31,196.7		₱27,978.0	
Tier 2 capital	**15,141.3**		14,993.0		14,158.4	
Gross qualifying capital	**42,539.8**		46,189.7		42,136.4	
Less required deductions	**9,472.2**		6,511.3		6,426.0	
Total qualifying capital	**₱33,067.6**	**₱19,886.2**	₱39,678.4	₱20,013.3	₱35,710.4	₱20,347.5
Risk weighted assets	**₱198,861.7**		₱200,132.9		₱203,474.7	
Tier 1 capital ratio	**11.40%**		13.96%		12.17%	
Total capital ratio	**16.63%**		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, 2012, 2011 and 2010 of the Group and the Parent Company (amounts in millions):

	Consolidated			**Parent Company**		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011 (As Restated)	2010 (As Restated)
Return on average equity (a/b)	**13.46%**	15.01%	15.24%	**12.83%**	15.73%	14.74%
a.) Net income	**₱5,028**	₱4,756	₱4,032	**₱4,555**	₱4,715	₱3,659
b.) Average total equity	**37,361**	31,673	26,460	**35,506**	29,972	24,826
Return on average assets (c/d)	**1.56%**	1.56%	1.40%	**1.44%**	1.57%	1.29%
c.) Net income	**₱5,028**	₱4,756	₱4,032	**₱4,555**	₱4,715	₱3,659
d.) Average total assets	**321,537**	304,593	287,645	**316,262**	300,261	282,584
Net interest margin on average earning assets (e/f)	**2.63%**	2.95%	3.38%	**2.62%**	2.94%	3.43%
e.) Net interest income	**₱6,976**	₱7,203	₱7,559	**₱6,762**	₱7,020	₱7,443
f.) Average interest earning assets	**264,968**	244,568	223,377	**258,515**	238,701	217,075

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).

25. **Income and Expenses**

Service fees and commission income consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Deposit-related	**₱860,606**	₱920,967	₱951,368	**₱860,606**	₱920,967	₱951,368
Remittance	**811,559**	936,610	987,097	**420,901**	442,721	433,695
Trust fees (Note 30)	**134,690**	136,848	125,311	**134,690**	136,848	125,311
Credit-related	**173,366**	267,245	324,194	**89,435**	144,803	198,843
Miscellaneous	**150,443**	82,320	60,000	**91,318**	37,463	45,244
	₱2,130,664	₱2,343,990	₱2,447,970	**₱1,596,950**	₱1,682,802	₱1,754,461

Miscellaneous income consists of:

	Consolidated			Parent Company		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011	2010
Income of SPV	**₱989,376**	₱762,828	₱942,263	**₱–**	₱–	₱–
Rental (Notes 27 and 31)	**172,512**	172,462	204,712	**180,127**	179,691	180,291
Share in net income of an associate	**10,309**	68,955	45,065	–	–	–
Others	**669,988**	906,688	403,408	**225,318**	612,269	430,086
	₱1,842,185	₱1,910,933	₱1,595,448	**₱405,445**	₱791,960	₱610,377

Net gains on sale or exchange of assets include net gains from sale of investment properties in 2012, 2011, and 2010 amounting to ₱474.4 million, ₱886.4 million and ₱876.9 million, respectively, for the Group and the Parent Company.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011	2010
Expenses of SPV	**₱559,468**	₱109,211	₱95,471	**₱–**	₱–	₱–
Security, clerical, messengerial	**516,836**	526,720	555,960	**504,643**	512,754	496,527
Insurance	**542,238**	512,070	541,529	**529,664**	496,522	526,525
Foreclosure and other ROPA related expenses (Note 13)	**287,028**	319,749	552,410	**281,664**	319,515	552,410
Promotional	**376,585**	291,470	423,963	**341,381**	291,470	386,908
Transportation and travel	**243,436**	231,705	227,663	**222,747**	217,925	208,960
Management and professional fees	**217,110**	204,801	203,730	**159,090**	150,740	144,800
Information technology	**191,982**	197,706	269,485	**147,398**	124,050	136,627
Amortization of software costs (Note 14)	**153,550**	162,167	156,708	**151,126**	158,528	153,774
Stationery and supplies used	**136,602**	147,876	142,936	**117,455**	126,517	117,738
Postage, telephone and telegram	**116,611**	132,216	112,186	**78,214**	87,650	58,979
EARE (Note 28)	**131,567**	130,395	130,800	**110,925**	116,917	109,256
Others	**660,794**	431,133	293,811	**597,654**	209,390	242,760
	₱4,133,807	₱3,397,219	₱3,706,652	**₱3,241,961**	₱2,811,978	₱3,135,264

Expenses of SPV consists of salaries and wages, taxes and licenses and other operating and administrative expenses.

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, 2012 and 2011 used in determining the retirement benefit obligation of the Parent Company:

	2012	2011
Expected rate of return on plan assets	**8%**	9%
Discount rate	**6%**	6%
Salary rate increase	**8%**	8%
Estimated working lives	**14 years**	14 years

As of December 31, 2012, the discount rate used in determining the retirement obligation is 5.7%.

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, 2012.

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

	December 31, 2012	December 31, 2011
Present value of defined benefit obligation	**₱3,141,154**	₱2,828,807
Fair value of plan assets	**1,317,811**	797,884
	1,823,343	2,030,923
Unrecognized amortizations:		
Past service cost	**(48,740)**	(53,614)
Actuarial loss	**(387,807)**	(619,360)
Retirement liability	**₱1,386,796**	₱1,357,949

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

	2012	2011	2010
Current service cost	**₱265,458**	₱160,225	₱218,827
Interest cost	**175,165**	143,754	218,128
Expected return on plan assets	**(77,294)**	(116,864)	(42,005)
Amortization of non-vested past service cost	**4,874**	4,874	4,873
Net actuarial loss (gain) recognized during the year	**24,034**	(18,305)	26,860
	₱392,237	₱173,684	₱426,683

The movements in the retirement liability recognized under ‘Other liabilities’ in the Parent Company’s statements of financial position follow:

	December 31, 2012	December 31, 2011
Balance at beginning of year	**₱1,357,949**	₱1,234,265
Retirement expense	**392,237**	173,684
Actual contributions	**(363,390)**	(50,000)
Balance at end of year	**₱1,386,796**	₱1,357,949

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

	December 31, 2012	December 31, 2011
Balance at beginning of year	**₱2,828,807**	₱1,827,591
Current service cost	**265,458**	160,225
Interest cost	**175,165**	143,754
Benefits paid	**(140,457)**	(191,951)
Actuarial loss	**12,181**	889,188
Balance at end of year	**₱3,141,154**	₱2,828,807

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

	December 31, 2012	December 31, 2011
Balance at beginning of year	**₱797,884**	₱973,864
Contributions	**363,390**	50,000
Actuarial gain (loss)	**219,699**	(150,893)
Benefits paid	**(140,457)**	(191,951)
Expected return	**77,295**	116,864
Balance at end of year	**₱1,317,811**	₱797,884

The fair value of the plan assets as of December 31, 2012 and 2011 includes the fair value of the investments in the Parent Company shares of stock amounting to ₱712.9 million and ₱441.8 million, respectively.

The actual return on plan assets of the Parent Company amounted to gains/(loss) of ₱297.0 million, (₱34.0 million) and ₱254.4 million in 2012, 2011 and 2010, 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 2013.

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

	December 31, 2012	December 31, 2011
Parent Company’s own common shares	**54%**	55%
Government securities	**7%**	20%
Debt securities and others	**39%**	25%
	100%	100%

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

	2012	2011	2010	2009	2008
Present value of the defined benefit obligation	**₱3,141,154**	₱2,828,807	₱1,827,591	₱2,218,999	₱1,218,986
Fair value of plan assets	**1,317,811**	797,884	973,864	750,100	421,196
Deficit on plan assets	**1,823,343**	2,030,923	853,727	1,468,899	797,790
Experience adjustments arising on plan liabilities	**(216,253)**	(66,200)	(273,035)	(24,385)	(92,518)
Experience adjustments arising on plan assets	**219,699**	(150,893)	212,432	70,857	151,035

As of December 31, 2012 and 2011, 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
2012	**₱2,124**	**(₱1,219)**	**₱579**	**₱7,377**	**₱956**	**₱2,403**
2011	39,970	(1,609)	115	7,741	1,277	2,473

Retirement expense of the Group charged against operations, included in 'Compensation and fringe benefits' in the statements of income amounted to ₱393.1 million, ₱185.7 million and ₱443.5 million in 2012, 2011 and 2010, 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 ₱387.2 million in 2012, ₱388.7 million in 2011 and ₱357.7 million in 2010 for the Group, of which ₱268.6 million in 2012, ₱253.3 million in 2011 and ₱222.6 million in 2010 pertain to the Parent Company.

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

	Consolidated		**Parent Company**	
	2012	2011	**2012**	2011
Within one year	**₱274,632**	₱97,972	**₱193,544**	₱57,635
Beyond one year but not more than five years	**536,520**	126,199	**383,661**	74,444
More than five years	**17,911**	8,272	**16,432**	7,761
	₱829,063	₱232,443	**₱593,637**	₱139,840

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 2012, 2011 and 2010, total rent income (included under 'Miscellaneous income') amounted to ₱172.5 million, ₱172.5 million and ₱204.7 million, respectively, for the Group and ₱180.1 million, ₱179.7 million and ₱180.3 million, respectively, for the Parent Company (see Note 25).

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

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Within one year	**₱56,233**	₱6,880	**₱4,153**	₱2,272
Beyond one year but not more than five years	**94,074**	14,632	**10,898**	2,241
	₱150,307	₱21,512	**₱15,051**	₱4,513

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 lease receivables under finance leases are as follows:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Within one year	**₱889,311**	₱1,205,291	**₱1,959**	₱1,800
Beyond one year but not more than five years	**1,068,345**	585,691	**18,100**	19,850
More than five years	**85,800**	84,700	**85,800**	84,700
Total (Note 8)	**2,043,456**	1,875,682	**105,859**	106,350
Less amounts representing finance charges	**292,797**	267,181	**60,655**	62,911
Present value of minimum lease payments	**₱1,750,659**	₱1,608,501	**₱45,204**	₱43,439

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		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011	2010
Current						
Regular	**₱293,052**	₱206,690	₱325,322	**₱205,490**	₱124,591	₱89,796
Final	**637,167**	671,171	618,826	**621,892**	656,960	605,808
	930,219	877,861	944,148	**827,382**	781,551	695,604
Deferred	**(5,485)**	1,491	(19,930)	**43,842**	26,837	(3,334)
	₱924,734	₱879,352	₱924,218	**₱871,224**	₱808,388	₱692,270

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

	December 31, 2012	December 31, 2011
Deferred tax assets	**₱1,780,682**	₱1,775,789
Other liabilities	**9,481**	24,885
	₱1,771,201	₱1,750,904

The components of net deferred tax assets follow:

	Consolidated		Parent Company	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Deferred tax asset on:				
Allowance for impairment, credit and other losses	**₱4,323,439**	₱4,446,842	**₱4,277,440**	₱4,414,337
Accumulated depreciation on investment properties	**624,305**	784,797	**623,627**	784,119
Others	**168,438**	67,500	**–**	–
	5,116,182	5,299,139	**4,901,067**	5,198,456
Deferred tax liability on:				
Fair value adjustment on investment properties	**1,988,219**	2,184,845	**1,988,219**	2,184,845
Revaluation increment on land and buildings	**878,483**	909,138	**878,483**	909,138
Unrealized trading gains on derivatives	**141,835**	106,777	**141,835**	106,777
Unrealized gain on AFS investments	**8,856**	34,637	**–**	20,862
Others	**327,588**	312,838	**218,812**	280,136
	3,344,981	3,548,235	**3,227,349**	3,501,758
	₱1,771,201	₱1,750,904	**₱1,673,718**	₱1,696,698

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

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Unrealized gain (loss) on AFS investments	**(₱25,781)**	₱22,217	**(₱20,862)**	₱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, 2012 and 2011 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	
	2012	2011	**2012**	2011
Allowance for impairment and credit losses	**₱745,941**	₱858,985	**₱745,941**	₱858,985
Provisions	**472,630**	262,485	**472,630**	262,485
MCIT	**361,071**	284,775	**348,562**	273,512
Derivative liabilities	**85,125**	51,304	**85,125**	51,304
NOLCO	**1,172**	3,400,843	**–**	3,394,739
Others	**585,760**	411,607	**583,434**	403,570
	₱2,251,699	₱5,269,999	**₱2,235,692**	₱5,244,595

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2007	₱8,618,816	₱8,618,816	₱–	2010 to 2012
2009	1,577,682	1,577,682	–	2012
2010	704	–	704	2013
2011	346	–	346	2014
2012	122	–	122	2015
	₱10,197,670	₱10,196,498	₱1,172	

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. In 2012, remaining unused NOLCO has expired.

Details of the Group's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2009	₱60,325	₱60,325	₱–	2012
2010	95,437	–	95,437	2013
2011	129,013	–	129,013	2014
2012	136,621	–	136,621	2015
	₱421,396	₱60,325	₱361,071	

Details of the Parent Company's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2007	₱8,618,816	₱8,618,816	₱–	2010 to 2012
2008	612,358	612,358	–	2011
2009	1,572,628	1,572,628	–	2012
	₱10,803,802	₱10,803,802	₱–	

Details of the Parent Company's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2009	₱59,125	₱59,125	₱–	2012
2010	89,796	–	89,796	2013
2011	124,591	–	124,591	2014
2012	134,175	–	134,175	2015
	₱407,687	₱59,125	₱348,562	

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

	Consolidated			Parent Company		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011 (As Restated)	2010 (As Restated)
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
FCDU income before tax	**(13.59)**	(16.61)	(14.81)	**(14.90)**	(16.94)	(16.87)
Net non-deductible expenses	**4.78**	6.96	7.10	**5.50**	7.08	5.72
Optional standard deduction	**(0.08)**	–	–	**–**	–	–
Tax-exempt income	**(7.24)**	(4.70)	(8.09)	**(6.41)**	(4.78)	(8.50)
Tax-paid income	**(0.22)**	(3.78)	(5.08)	**(0.59)**	(3.49)	(5.03)
Net unrecognized deferred tax assets	**1.89**	3.74	9.53	**2.46**	2.77	10.59
Effective income tax rate	**15.54%**	15.61%	18.65%	**16.06%**	14.64%	15.91%

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 ₱131.6 million in 2012, ₱130.4 million in 2011 and ₱130.8 million in 2010 for the Group, and ₱110.9 million in 2012, ₱116.9 million in 2011 and ₱109.3 million in 2010 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:

	2012	2011 (As Restated)	2010 (As Restated)
a) Net income attributable to equity holders of the Parent Company	**₱4,651,806**	₱4,669,352	₱3,565,719
Less income attributable to convertible preferred stocks classified as equity (in thousand pesos)	**–**	–	–
b) Net income attributable to common shareholders	**₱4,651,806**	₱4,669,352	₱3,565,719
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)	**₱7.02**	₱7.05	₱5.38
g) Diluted earnings per share (a/e)	**7.02**	7.05	5.38

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 ₱56.0 billion and ₱55.6 billion as of December 31, 2012 and 2011, respectively (see Note 32). In connection with the trust functions of the Parent Company, government securities amounting to ₱607.2 million and ₱553.3 million (included under 'AFS investments') as of December 31, 2012 and 2011, 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 ₱9.7 million, ₱8.3 million and ₱5.1 million in 2012, 2011 and 2010, 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, 2012 and 2011 and January 1, 2011, the Parent Company was in compliance with such regulations.

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

	Consolidated			Parent Company		
	December 31 2012	December 31, 2011	January 1, 2011	**December 31 2012**	December 31, 2011	January 1, 2011
Total Outstanding DOSRI Accounts	**₱2,650,526**	₱4,916,441	₱2,191,313	**₱2,650,526**	₱4,916,441	₱2,191,313
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of DOSRI accounts to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**3.29%**	14.60%	23.95%	**3.29%**	14.60%	23.95%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	0.00%	**0.00%**	0.00%	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	0.00%	**0.00%**	0.00%	0.00%

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.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

	December 31, 2012		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Subsidiaries			
Receivables from customers		**₱564,000**	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 31 days Unsecured - ₱564.0 million with no impairment No collateral
Accounts receivable		**106,458**	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		**1,026**	Interest on receivables from customers
Deposit liabilities		**552,297**	With annual rates ranging from 0.1% to 3.0% and maturity terms ranging from 30 days to one (1) year
Bills Payable		**863,579**	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured No collateral
Accrued interest payable		**3,473**	Interest on deposit liabilities and bills payable
Due to Banks		**205,480**	Clearing accounts for funding and settlement of remittances
Interest income	**₱28,271**		Interest income on receivable from customers
Interest expense	**12,772**		Interest expense on deposit liabilities and bills payable
Other income	**7,615**		Rental income with lease term of three (3) years and annual escalation rate of 10%
Other expense	**2,004**		Share in utilities expense
Other Related Parties			
Receivable from customers		**2,873,011**	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years. Secured - ₱2.8 billion and unsecured - ₱0.07 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Sales Contract Receivables		**105,750**	From sale of investment property Title will be transferred upon full payment Non-interest bearing loan payable within one year Secured - ₱105.8 million; with no impairment Collateral pertains to investment property sold
Accrued interest receivables		**1,647**	Interest on receivables from customers
Bills payable		**554,175**	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		**1,272,976**	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Interest income	**154,464**		Interest income on receivable from customers
Profit from asset sold	**39,095**		Gain from sale of investment property

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2012		
Interest expense	**₱10,626**		Interest expense on deposit liabilities
Other income	**16,830**		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5% starting sixth year of the lease term
Due from other banks		**₱196,977**	Includes savings deposits with interest rate of 0.13%
Investment securities		**270,212**	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱270.0 million.
Securities transactions:			
Purchases	**16,431,445**		Outright purchase of securities
Sales	**11,884,060**		Outright sale of securities
Trading gains	**19,017**		Gain from sale of investment securities
Loan releases	**512,941**		Loan drawdowns
Loan collections	**2,326,902**		Settlement of loans and interest

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2011		
Subsidiaries			
Due from banks		₱223,548	Clearing accounts for funding and settlement of remittances
Receivables from customers		600,000	Revolving credit lines with fixed annual interest rates ranging from 4.90% to 5.15% and maturity terms of less than 31 days Unsecured - ₱600.0 million with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Accounts receivable		28,364	Advances for working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		1,255	Interest on receivables from customers
Deposit liabilities		946,379	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Accounts payable		235	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		537	Interest on deposit liabilities
Due to Banks		250,360	Clearing accounts for funding and settlement of remittances
Interest income	₱17,860		Interest income on receivable from customers
Interest expense	18,576		Interest expense on deposit liabilities and bills payable
Other income	7,228		Rental income with lease term of three (3) years and annual escalation rate of 10%
Other expense	2,004		Share in utilities expense
Other Related Parties			
Receivable from customers		4,781,525	Loans with rinterest rates ranging from 1.0% to 15.0% and maturity terms ranging from six (6) months to 25 years Secured - ₱4.1 billion and unsecured - ₱0.7 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages and collateral participation certificates
Accrued interest receivables		28,958	Interest on receivables from customers
Deposit liabilities		653,960	With annual rates ranging from 0.5% to 1.44% and maturity terms ranging from 30 days to one (1) year
Interest income	118,917		Interest income on receivable from customers
Interest expense	5,356		Interest expense on deposits and bills payable
Other expense	4,774		Marketing expense - Joint Venture

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2011		
Other income	₱16,830		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rates of 5% starting sixth year of the lease term.
Due from other banks		₱163,594	Includes savings deposit with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS Investments with allowance for impairment loss of ₱270.0 million.
Securities transactions:			
Purchases	12,718,836		Outright purchase of securities
Sales	11,049,302		Outright sale of securities
Trading loss	(125,414)		Loss from sale of investment securities
Loan releases	3,222,193		Loan drawdowns
Loan collections	545,419		Settlement of loans and interest

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2010		
Subsidiaries			
Due from banks		₱23,615	Clearing accounts for funding and settlement of remittances
Interbank loans receivable		28,987	With annual interest rate of 0.79% and maturity term of 30 days; unsecured
Accounts receivable		28,987	Advances for additional working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		8	Interest on receivables from customers
Due to banks		14,004	Clearing accounts for funding and settlement of remittances
Deposit liabilities		713,963	With annual interest rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Bills payable		1,676,160	Foreign currency-denominated bills payable with interest rate ranging from 0.25% to 1.07% and maturity terms from one (1) to three (3) months; unsecured
Accounts payable		291	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		531	Interest on deposit liabilities
Interest income	₱193		Interest income on interbank loans receivables
Interest expense	15,496		Interest expense on deposit liabilities and bills payable
Other income	5,856		Rental income with lease term of three (3) years and annual escalation rate of 10.0%
Utilities expense	1,606		Share in utilities expense
Other Related Parties			
Receivable from customers		2,191,313	Loans with interest rates ranging from 2.5% to 16.5% and maturity terms ranging from one (1) month to 25 years Secured - ₱1.7 billion and unsecured - ₱0.5 million with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages and collateral participation certificates
Due from other banks		77,502	Includes savings deposit with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱269.0 million
Accrued interest receivables		7,918	Interest on receivables from customers

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2010		
Deposit liabilities		₱1,020,194	With annual rates ranging from 0.5% to 1.44% and maturity terms ranging from 30 days to one (1) year
Interest income	₱147,210		Interest income on receivable from customers
Interest expense	10,565		Interest expense on deposit liabilities
Other income	16,830		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5.0% starting sixth year of the lease term
Other expense	11,916		Marketing expense – Joint Venture
Loan releases	153,091		Loan drawdowns
Loan collections	222,492		Settlement of loans and interest

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2012, 2011 and 2010.

The compensation of the key management personnel follows:

	Consolidated			**Parent Company**		
	2012	2011	2010	**2012**	2011	2010
Short-term employee benefits	**₱135,347**	₱152,623	₱161,808	**₱118,187**	₱88,996	₱86,809
Post-employment benefits	**19,642**	14,683	24,908	**19,138**	12,109	21,227
	₱154,989	₱167,306	₱186,716	**₱137,325**	₱101,105	₱108,036

The Parent Company and EPPI signed two JVA for the development of two properties under 'Real estate under joint venture (JV) agreement' by the Group and Parent Company with book values of ₱1.2 billion. EPPI and the Group are under common control. 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.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). As of December 31, 2012, the fair values and carrying values of the funds amounted to ₱1.32 billion for the Parent Company and ₱1.35 billion and ₱1.34 billion for the Group, respectively.

Relevant information on assets/liabilities and income/expense of the funds as of and for the year ended December 31, 2012 are as follow:

	Consolidated	Parent Company
Investment securities:		
Held for trading	₱712,875	₱712,875
Available-for-sale	212,437	194,663
Held-to-maturity	68,000	68,000
Deposits with other banks	263,830	255,621
Deposit with PNB	50,792	50,791
Loans and other receivables	37,807	36,614
Total Fund Assets	₱1,345,741	₱1,318,564
Trust Fees Payable	₱754	₱773
Other Contra Accounts	–	(2)
Total Fund Liabilities	₱754	₱771

Fund Income	Consolidated	Parent Company
Unrealized gains on HFT (PNB)	₱271,049	₱271,049
Interest income	20,738	20,213
Gains on sale of investment securities	72	72
	₱291,859	₱291,334
Fund Expense		
Trust fees	₱2,442	₱2,409
Other expenses	270	227
	₱2,712	₱2,636

As of December 31, 2012, the retirement fund of the Group and the Parent Company include 7,833,795 shares of PNB classified under HFT. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of December 31, 2012, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP. Loans and other receivables include accrued interest amounting to ₱0.04 million and income include interest on deposit with PNB amounting to ₱0.90 million, both for the Group and the Parent Company. Investments are approved by an authorized fund manager or officer of TBG.

32. Provisions, Contingent Liabilities and Other Commitments

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 13).

As of December 31, 2012 and 2011, the total trust assets of the escrow account maintained with the BSP amounted to ₱2.9 billion and ₱2.7 billion, respectively. Average yield during the year was 5.49%. 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.

As discussed in Note 8, 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. 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. On May 9, 2012, the Arbitration Panel issued a Partial Award in favor of the SPV companies, including such reliefs as payment of a certain sum of money and transfer of clean titles on the plant assets under the name of NSC by the bank consortium and the NSC Liquidator in favor of the SPV companies. The Parent Company, one of the members of the consortium, holds a forty-one percent (41%) interest in the claim, and has already set aside the appropriate reserve provision for the same.

Meanwhile, on July 9, 2012, the bank consortium filed with the Singapore High Court a Petition to Set Aside the Partial Award rendered by the Arbitration Panel, which Petition is pending to date.

Movements of provisions for legal claims both for the Group and the Parent Company are as follows:

	December 31, 2012	December 31, 2011
Balance at beginning of the year	**₱874,950**	₱710,172
Provisions	**834,259**	164,778
Reclassification and settlements	**(133,776)**	–
Balance at end of the year	**₱1,575,433**	₱874,950

BSP Reporting

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated		**Parent Company**	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Trust department accounts (Note 30)	**₱55,976,479**	₱55,565,213	**₱55,976,479**	₱55,565,213
Deficiency claims receivable	**6,309,340**	6,334,950	**6,309,340**	6,334,950
Inward bills for collection	**140,548**	1,542,449	**140,548**	1,542,449
Outstanding guarantees issued	**628,422**	728,343	**179,212**	271,980
Outward bills for collection	**105,029**	123,224	**105,029**	123,082
Unused commercial letters of credit	**36,096**	85,260	**36,096**	85,260
Other contingent accounts	**41,317**	41,265	**41,311**	41,259
Confirmed export letters of credit	**78,126**	5,261	**78,126**	5,261
Items held as collateral	**244**	259	**236**	250

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:

	2012	2011
Due from BSP	**₱–**	₱20,200,000

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.

On March 31, 2012, a stock purchase agreement was entered into with a First National Bank of Northern California (FNB Bancorp.) to sell Oceanic BVI, different from the initial plan to sell Oceanic BVI. On September 22, 2012, the sale of Oceanic BVI to FNB Bancorp. was completed.

35. Events After Reporting Date

On February 7, 2013, the BSP has accepted the Parent Company's proposal to make an early payment to settle the ₱3.0 billion obligation to the BSP as disclosed in Note 32. Government securities held under the escrow fund were transferred to the Parent Company and the real estate collaterals pledged to BSP were also released.

On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The respective shareholders of the Parent Company and ABC, representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original Plan of Merger was approved by the affirmative vote of ABC and the Parent Company's respective shareholders on June 24, 2008, representing at least two-thirds of the outstanding capital stock of both banks.

On March 26, 2012, the Parent Company submitted to the BSP and PDIC applications for consent to the merger. On April 12, 2012, the application for the merger was filed with the SEC. On July 25, 2012, the Parent Company received notice that the PDIC had given its consent to the merger. Likewise, on August 2, 2012, the Monetary Board of the BSP issued a resolution giving its consent to the merger. Finally, on January 17, 2013, the SEC granted its approval to the merger. In addition, with respect to ABC's overseas subsidiaries, the Parent Company has also filed notices in relation to the merger with various relevant foreign regulatory agencies; and as of January 17, 2013 had received all necessary approvals to effectuate the merger.

The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion which represents 423,962,500 common shares at the fair value of ₱97.90 per share in exchange for the 100% voting interest in ABC at the share swap ratio of 130 PNB common shares for one ABC share and 22.763 PNB common shares for one ABC preferred share. The fair value of the shares is the published price of the shares of the Parent Company as of February 8, 2013. There are no contingent considerations arrangements.

The Parent Company has elected to measure the non-controlling interests in ABC at their proportionate share of the ABC's net identifiable assets and liabilities. As at acquisition date, the Parent Company is still in the process of determining the fair values of ABC's net identifiable assets and liabilities and the total acquisition/transaction related costs.

The merger of the Parent Company and ABC will enable the two banks to advance their long-term strategic business interests as they capitalized on their individual strengths and markets.

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 February 22, 2013.

Allied Banking Corporation and Subsidiaries

Financial Statements
December 31, 2012 and 2011 and January 1, 2011
and for the Years Ended December 31, 2012, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
ERNST & YOUNG

SGV & Co
Ernst & Young

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Allied Banking Corporation

We have audited the accompanying consolidated financial statements of Allied Banking Corporation and Subsidiaries (the Group) and the parent company financial statements of Allied Banking Corporation (the Parent Company), which comprise the statements of financial position as at December 31, 2012 and 2011 and January 1, 2011, and the statements of income, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Group's management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of thefinancial 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 control. 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 audit opinion.

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, 2012 and 2011 and January 1, 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

Other Matter

In our auditor's report dated March 7, 2012, we issued an unqualified opinion on the 2011 and 2010 financial statements prepared in accordance with accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks).

As discussed in Note 2 to the financial statements, the 2011 and 2010 financial statements previously prepared in accordance with Philippine GAAP for banks have been prepared in accordance with Philippine Financial Reporting Standards. As of December 31, 2011, the Held-to-Maturity investments with carrying value of ₱21.16 billion and ₱19.94 billion for the Group and the Parent Company, respectively, have been reclassified to Available-for-Sale investments with fair value of ₱23.60 billion and ₱22.14 billion for the Group and the Parent Company, respectively, in accordance with Philippine Financial Reporting Standards (see Note 35).

SYCIP GORRES VELAYO & CO

Janeth T. Nuñez

Janeth T. Nuñez
Partner
CPA Certificate No. 111092
SEC Accreditation No. A-560-A (Group A),
Valid until May 31, 2013
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3670006, January 2, 2013, Makati City

February 22, 2013

ALLIED BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION
(In Thousands)

	Consolidated			Parent Company		
	December 31			December 31		
	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011
ASSETS						
Cash and Other Cash Items (Note 15)	₱3,885,613	₱4,023,559	₱4,636,820	₱3,621,910	₱3,719,876	₱4,280,874
Due from Bangko Sentral ng Pilipinas (Note 15)	26,082,603	18,286,303	16,297,912	25,897,693	18,174,486	13,892,789
Due from Other Banks (Note 37)	11,771,750	10,821,079	7,442,201	3,719,056	4,106,005	2,938,976
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Notes 6, 30 and 37)	7,955,042	12,578,296	15,058,026	5,053,986	10,120,198	14,470,270
Financial Assets at Fair Value through Profit or Loss (Note 7)	7,375,526	697,769	3,507,011	7,376,788	696,339	3,506,941
Available-for-Sale Investments (Note 7)	29,702,086	40,331,832	20,500,595	23,691,775	35,068,085	17,609,758
Held-to-Maturity Investments (Notes 7 and 28)	–	–	20,943,291	–	–	19,720,205
Loans and Receivables (Notes 8, 16 and 30)	100,136,937	97,504,192	81,216,200	90,854,848	87,093,835	71,110,129
Investments in Subsidiaries (Note 9)	–	–	–	4,142,618	4,172,118	4,172,118
Property and Equipment (Note 10)						
At appraised values	3,368,392	2,971,633	2,958,427	3,338,721	2,941,962	2,941,962
At cost	1,447,804	1,567,070	1,701,135	1,161,344	1,246,337	1,368,614
Investment Properties (Note 11)	3,971,404	4,317,859	4,536,404	3,780,122	4,009,388	4,266,582
Deferred Tax Asset (Note 27)	98,012	33,572	41,130	–	–	–
Other Assets (Note 12)	1,982,034	1,976,227	2,275,700	1,771,512	1,823,877	2,136,152
Assets of Disposal Group Classified as Held-for-Sale (Note 13)	–	7,422,682	8,335,957	–	20,500	20,500
	₱197,777,203	₱202,532,073	₱189,450,809	₱174,410,373	₱173,193,006	₱162,435,870
LIABILITIES AND EQUITY						
LIABILITIES						
Deposit Liabilities (Notes 15 and 30)						
Demand	₱51,759,063	₱45,490,521	₱41,848,445	₱50,357,692	₱45,151,949	₱41,798,506
Savings	67,634,219	70,422,445	68,425,612	65,356,382	68,598,623	66,533,653
Time	27,678,795	31,196,632	31,220,107	20,954,422	22,352,006	24,956,492
	147,072,077	147,109,598	141,494,164	136,668,496	136,102,578	133,288,651
Derivative Liabilities (Notes 7 and 30)	106,066	90,411	138,395	106,755	97,080	137,310
Bills Payable (Notes 16 and 30)	5,062,704	4,277,935	1,608,971	5,002,704	4,531,183	1,398,112
Marginal Deposits	34,374	13,761	38,290	34,374	13,761	37,077
Manager's Checks and Demand Draft Outstanding	438,543	928,009	418,184	429,530	911,382	409,386
Accrued Taxes, Interest and Other Expenses (Note 17)	1,347,729	1,168,385	1,112,658	1,170,758	1,052,368	1,003,779
Income Tax Payable	38,985	21,412	16,614	434	–	1,440
Subordinated Debt (Note 18)	4,497,306	4,482,791	4,469,369	4,497,306	4,482,791	4,469,369
Insurance Provisions (Note 19)	4,073,542	3,286,717	2,512,138	–	–	–
Deferred Tax Liability (Note 27)	510,430	417,470	410,897	509,722	408,750	406,682
Other Liabilities (Note 20)	4,089,050	4,593,259	4,347,404	3,503,452	3,940,102	3,067,119
Liabilities of Disposal Group Classified as Held-for-Sale (Note 13)	–	6,017,084	6,965,387	–	–	–
	167,270,806	172,406,832	163,532,471	151,923,531	151,539,995	144,218,925

(Forward)

	Consolidated			Parent Company		
	December 31			December 31		
	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011
EQUITY						
Equity Attributable to Equity Holders of Parent Company						
Preferred stock (Note 22)	**₱50,000**	₱50,000	₱50,000	**₱50,000**	₱50,000	₱50,000
Common stock (Note 22)	**3,252,495**	3,252,495	3,252,495	**3,252,495**	3,252,495	3,252,495
Equity adjustment from conversion (Note 22)	**(592,150)**	(592,150)	(592,150)	**(592,150)**	(592,150)	(592,150)
Surplus reserve (Notes 22 and 28)	**213,146**	205,207	199,214	**213,146**	205,207	199,214
Surplus (Note 22)	**18,196,725**	16,333,083	15,020,582	**16,256,757**	14,421,702	13,309,808
Reserve of disposal group classified as held-for-sale (Note 13)	**–**	97,569	97,371	**–**	–	–
Net unrealized gains on available-for-sale investments (Note 7)	**2,291,619**	3,380,450	778,675	**1,589,265**	2,893,283	592,797
Revaluation increment of land (Note 10)	**1,737,431**	1,482,351	1,473,107	**1,718,351**	1,463,271	1,463,271
Equity adjustment from translation	**288,307**	457,691	447,478	**(1,022)**	(40,797)	(58,490)
	25,437,573	24,666,696	20,726,772	**22,486,842**	21,653,011	18,216,945
Non-controlling Interest	**5,068,824**	5,458,545	5,191,566	**–**	–	–
	30,506,397	30,125,241	25,918,338	**22,486,842**	21,653,011	18,216,945
	₱197,777,203	₱202,532,073	₱189,450,809	**₱174,410,373**	₱173,193,006	₱162,435,870

See accompanying Notes to Financial Statements.

ALLIED BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Thousands, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011 (As restated - Notes 2 and 35)	2010	2012	2011 (As restated - Notes 2 and 35)	2010
CONTINUING OPERATIONS						
INTEREST INCOME ON						
Loans and receivables (Notes 8 and 30)	**₱6,481,902**	₱6,061,874	₱5,505,399	**₱5,988,613**	₱5,563,553	₱5,147,582
Trading and investment securities (Note 7)	**2,258,842**	2,728,528	3,032,054	**1,959,691**	2,422,668	2,991,100
Deposits with banks and interbank loans receivable (Note 30)	**491,478**	639,954	1,094,907	**243,127**	515,831	732,637
	9,232,222	9,430,356	9,632,360	**8,191,431**	8,502,052	8,871,319
INTEREST EXPENSE ON						
Deposit liabilities (Notes 15 and 30)	**1,944,437**	2,414,908	2,466,055	**1,834,033**	2,345,003	2,407,610
Bills payable and other borrowings (Notes 16, 20 and 30)	**505,517**	414,737	375,019	**485,422**	399,795	373,853
	2,449,954	2,829,645	2,841,074	**2,319,455**	2,744,798	2,781,463
NET INTEREST INCOME	**6,782,268**	6,600,711	6,791,286	**5,871,976**	5,757,254	6,089,856
Trading and investment securities gains - net (Note 7)	**2,852,276**	537,626	902,400	**2,791,606**	520,970	887,922
Commissions and handling charges (Note 30)	**760,086**	719,686	796,561	**657,802**	612,314	728,159
Foreign exchange gains (losses) - net	**(237,700)**	187,261	30,914	**(284,158)**	120,004	(20,665)
Gain on acquisition of investment properties (Note 11)	**27,158**	36,600	30,532	**22,534**	28,787	29,922
Miscellaneous (Notes 23 and 25)	**2,569,889**	1,991,784	1,848,269	**1,052,431**	716,801	919,112
TOTAL OPERATING INCOME	**12,753,977**	10,073,668	10,399,962	**10,112,191**	7,756,130	8,634,306
Compensation and fringe benefits (Notes 24 and 30)	**2,629,790**	2,827,046	2,768,131	**2,237,010**	2,456,034	2,429,226
Provision for credit and impairment losses (Note 14)	**1,783,454**	362,334	1,252,727	**1,548,204**	350,778	1,211,263
Occupancy and other equipment - related costs (Note 25)	**900,199**	860,404	856,468	**832,361**	797,154	797,441
Taxes and licenses (Note 27)	**845,291**	772,788	798,053	**780,639**	708,876	741,665
Depreciation and amortization (Note 10)	**397,339**	432,820	460,049	**349,084**	384,323	417,895
Miscellaneous (Note 26)	**3,685,433**	2,896,096	2,391,897	**2,011,837**	1,574,383	1,427,677
TOTAL OPERATING EXPENSES	**10,241,506**	8,151,488	8,527,325	**7,759,135**	6,271,548	7,025,167
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	**2,512,471**	1,922,180	1,872,637	**2,353,056**	1,484,582	1,609,139
PROVISION FOR INCOME TAX (Note 27)	**521,302**	469,171	609,325	**480,062**	366,695	542,319
NET INCOME FROM CONTINUING OPERATIONS	**1,991,169**	1,453,009	1,263,312	**1,872,994**	1,117,887	1,066,820
NET INCOME (LOSS) FROM DISCONTINUED OPERATION (Note 13)	**(238,093)**	56,191	35,090	**–**	–	–
NET INCOME	**₱1,753,076**	₱1,509,200	₱1,298,402	**₱1,872,994**	₱1,117,887	₱1,066,820
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company						
Profit for the year from continuing operations	**₱1,967,723**	₱1,302,884	₱1,167,714			
Profit (loss) for the year from discontinued operation (Note 13)	**(66,142)**	15,610	9,748			
	1,901,581	1,318,494	1,177,462			
Non-controlling Interest						
Profit for the year from continuing operations	**23,446**	150,125	95,598			
Profit (loss) for the year from discontinued operation	**(171,951)**	40,581	25,342			
	(148,505)	190,706	120,940			
	₱1,753,076	₱1,509,200	₱1,298,402			
EARNINGS PER SHARE (Note 33)						
Basic and diluted, for net income attributable To common equity holders of the Parent Company	**₱582.35**	₱403.07	₱359.71			
EARNINGS PER SHARE FOR CONTINUING OPERATIONS (Note 33)						
Basic and diluted, for net income from continuing operations attributable to common equity holders of the Parent Company	**₱602.68**	₱398.27	₱356.72			

See accompanying Notes to Financial Statements.

ALLIED BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011 (As restated - Notes 2 and 35)	2010	2012	2011 (As restated - Notes 2 and 35)	2010
NET INCOME FROM CONTINUING OPERATIONS	**₱1,991,169**	₱1,453,009	₱1,263,312	**₱1,872,994**	₱1,117,887	₱1,066,820
NET INCOME (LOSS) FROM DISCONTINUED OPERATION (Note 13)	**(238,093)**	56,191	35,090	**–**	–	–
NET INCOME	**1,753,076**	1,509,200	1,298,402	**1,872,994**	1,117,887	1,066,820
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX						
CONTINUING OPERATION						
Changes in net unrealized gain on available-for-sale investments (Note 7)	**(1,000,960)**	2,687,875	1,090,044	**(1,304,018)**	2,300,486	941,779
Equity adjustment from translation	**(528,553)**	4,869	(497,226)	**39,775**	17,693	(21,558)
Changes in revaluation increment	**255,080**	9,244	–	**255,080**	–	–
	(1,274,433)	2,701,988	592,818	**(1,009,163)**	2,318,179	920,221
DISCONTINUED OPERATION (Note 13)						
Changes in net unrealized gain on available-for-sale investments	**4,998**	(4,998)	–	**–**	–	–
Equity adjustment from translation	**(72,485)**	713	(73,482)	**–**	–	–
	(67,487)	(4,285)	(73,482)	**–**	–	–
	(1,341,920)	2,697,703	519,336	**(1,009,163)**	2,318,179	920,221
TOTAL COMPREHENSIVE INCOME	**₱411,156**	₱4,206,903	₱1,817,738	**₱863,831**	₱3,436,066	₱1,987,041
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company						
Total comprehensive income for the year from continuing operations	**₱885,767**	₱3,925,504	₱1,933,003			
Total comprehensive income (loss) for the year from discontinued operation	**(84,890)**	14,420	(10,665)			
	800,877	3,939,924	1,922,338			
Non-controlling Interest						
Total comprehensive income (loss) for the year from continuing operations	**(169,031)**	229,492	(76,873)			
Total comprehensive income (loss) for the year from discontinued operation	**(220,690)**	37,487	(27,727)			
	(389,721)	266,979	(104,600)			
	₱411,156	₱4,206,903	₱1,817,738			

See accompanying Notes to Financial Statements.

ALLIED BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Consolidated											
	Attributable to Equity Holders of Parent Company											
	Preferred Stock (Note 22)	Common Stock (Note 22)	Surplus Reserve (Notes 22 and 28)	Surplus (Note 22)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 7)	Revaluation Increment of Land (Note 10)	Equity Adjustment from Translation	Equity Adjustment from Conversion (Note 22)	Reserve of disposal group classified as held-for-sale (Note 13)	Total	Non-controlling Interest (Note 2)	Total Equity
Balance at January 1, 2012, as restated	**₱50,000**	**₱3,252,495**	**₱205,207**	**₱16,333,083**	**₱3,380,450**	**₱1,482,351**	**₱457,691**	**(₱592,150)**	**₱97,569**	**₱24,666,696**	**₱5,458,545**	**₱30,125,241**
Total comprehensive income	–	–	–	1,901,581	(1,088,831)	255,080	(169,384)	–	(97,569)	800,877	(389,721)	411,156
Transfer to surplus reserve	–	–	7,939	(7,939)	–	–	–	–	–	–	–	–
Dividend declaration	–	–	–	(30,000)	–	–	–	–	–	(30,000)	–	(30,000)
Balance at December 31, 2012	**₱50,000**	**₱3,252,495**	**₱213,146**	**₱18,196,725**	**₱2,291,619**	**₱1,737,431**	**₱288,307**	**(₱592,150)**	**₱–**	**₱25,437,573**	**₱5,068,824**	**₱30,506,397**
Balance at January 1, 2011	₱50,000	₱3,252,495	₱199,214	₱15,020,582	₱778,675	₱1,473,107	₱447,478	(₱592,150)	₱97,371	₱20,726,772	₱5,191,566	₱25,918,338
Total comprehensive income	–	–	–	1,316,568	235,185	9,244	10,213	–	198	1,571,408	213,167	1,784,575
Transfer to surplus reserve	–	–	5,993	(5,993)	–	–	–	–	–	–	–	–
Balance at December 31, 2011, as previously reported	50,000	3,252,495	205,207	16,331,157	1,013,860	1,482,351	457,691	(592,150)	97,569	22,298,180	5,404,733	27,702,913
Restatement of surplus and other comprehensive income from reclassification (Notes 2 and 35)	–	–	–	1,926	2,366,590	–	–	–	–	2,368,516	53,812	2,422,328
Balance at December 31, 2011, as restated	₱50,000	₱3,252,495	₱205,207	₱16,333,083	₱3,380,450	₱1,482,351	₱457,691	(₱592,150)	₱97,569	₱24,666,696	₱5,458,545	₱30,125,241
Balance at January 1, 2010	₱50,000	₱3,252,495	₱194,554	₱13,847,780	(₱272,134)	₱1,473,107	₱850,782	(₱592,150)	₱–	₱18,804,434	₱5,296,166	₱24,100,600
Total comprehensive income	–	–	–	1,177,462	1,050,809	–	(305,933)	–	–	1,922,338	(104,600)	1,817,738
Restatement of share in equity balance of disposal group (Note 13)	–	–	–	–	–	–	(97,371)	–	97,371	–	–	–
Transfer to surplus reserve	–	–	4,660	(4,660)	–	–	–	–	–	–	–	–
Balance at December 31, 2010	₱50,000	₱3,252,495	₱199,214	₱15,020,582	₱778,675	₱1,473,107	₱447,478	(₱592,150)	₱97,371	₱20,726,772	₱5,191,566	₱25,918,338

See accompanying Notes to Financial Statements.

Parent Company

	Preferred Stock (Note 22)	**Common Stock** (Note 22)	**Surplus Reserve** (Notes 22 and 28)	**Surplus** (Note 22)	**Net Unrealized Gain (Loss) on Available-for-Sale Investments** (Note 7)	**Revaluation Increment of Land** (Note 10)	**Equity Adjustment from Translation**	**Equity Adjustment from Conversion** (Note 22)	**Total**
Balance at January 1, 2012, as restated	**₱50,000**	**₱3,252,495**	**₱205,207**	**₱14,421,702**	**₱2,893,283**	**₱1,463,271**	**(₱40,797)**	**(₱592,150)**	**₱21,653,011**
Total comprehensive income	–	–	–	**1,872,994**	**(1,304,018)**	**255,080**	**39,775**	–	**863,831**
Transfer to surplus reserve	–	–	**7,939**	**(7,939)**	–	–	–	–	–
Dividend	–	–	–	**(30,000)**	–	–	–	–	**(30,000)**
Balance at December 31, 2012	**₱50,000**	**₱3,252,495**	**₱213,146**	**₱16,256,757**	**₱1,589,265**	**₱1,718,351**	**(₱1,022)**	**(₱592,150)**	**₱22,486,842**
Balance at January 1, 2011	₱50,000	₱3,252,495	₱199,214	₱13,309,808	₱592,797	₱1,463,271	(₱58,490)	(₱592,150)	₱18,216,945
Total comprehensive income	–	–	–	1,117,620	109,211	–	17,693	–	1,244,524
Transfer to surplus reserve	–	–	5,993	(5,993)	–	–	–	–	–
Balance at December 31, 2011, as previously reported	50,000	3,252,495	205,207	14,421,435	702,008	1,463,271	(40,797)	(592,150)	19,461,469
Restatement of surplus and other comprehensive income from reclassification (Notes 2 and 35)	–	–	–	267	2,191,275	–	–	–	2,191,542
Balance at December 31, 2011, as restated	₱50,000	₱3,252,495	₱205,207	₱14,421,702	₱2,893,283	₱1,463,271	(₱40,797)	(₱592,150)	₱21,653,011
Balance at January 1, 2010	₱50,000	₱3,252,495	₱194,554	₱12,247,648	(₱348,982)	₱1,463,271	(₱36,932)	(₱592,150)	₱16,229,904
Total comprehensive income	–	–	–	1,066,820	941,779	–	(21,558)	–	1,987,041
Transfer to surplus reserve	–	–	4,660	(4,660)	–	–	–	–	–
Balance at December 31, 2010	₱50,000	₱3,252,495	₱199,214	₱13,309,808	₱592,797	₱1,463,271	(₱58,490)	(₱592,150)	₱18,216,945

See accompanying Notes to Financial Statements.

ALLIED BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011 (As restated - Notes 2 and 35)	2010	2012	2011 (As restated - Notes 2 and 35)	2010
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax from continuing operations	**₱2,512,471**	₱1,922,180	₱1,872,637	**₱2,353,056**	₱1,484,582	₱1,609,139
Income (loss) before income tax from discontinued operation (Note 13)	**(204,550)**	90,055	54,726	**–**	–	–
	2,307,921	2,012,235	1,927,363	**2,353,056**	1,484,582	1,609,139
Adjustments for:						
Trading and investment securities gains on available-for- sale investments (Note 7)	**(2,486,548)**	(379,228)	(586,191)	**(2,418,924)**	(378,671)	(586,190)
Provision for credit and impairment losses (Notes 13 and 14)	**1,785,814**	368,309	1,263,034	**1,548,204**	350,778	1,211,263
Increase in aggregate life reserve for life policies (Note 26)	**805,884**	717,007	513,858	**–**	–	–
Depreciation and amortization (Notes 10 and 13)	**397,348**	433,426	460,644	**349,084**	384,323	417,895
Loss from sale of disposal group (Note 13)	**290,242**	–	–	**–**	–	–
Gain on sale of investment properties (Notes 11 and 23)	**(211,527)**	(112,118)	(228,667)	**(203,228)**	(99,416)	(222,058)
Unrealized market loss (gain) on fair value through profit or loss investments (Note 7)	**(81,828)**	(8,738)	(104,083)	**(88,782)**	16,079	(104,083)
Gain on acquisition of investment properties (Note 11)	**(27,158)**	(36,600)	(30,532)	**(22,534)**	(28,787)	(29,922)
Amortization of discount on subordinated debt (Note 18)	**14,515**	13,422	9,573	**14,515**	13,422	9,573
Gain on sale of property and equipment (Note 10)	**(710)**	(3,851)	(8,521)	**(710)**	(3,836)	(8,521)
Gain on sale from dissolution of subsidiary	**–**	–	–	**(6,381)**	–	–
Changes in operating assets and liabilities:						
Decrease (increase):						
Financial assets at fair value through profit or loss	**(6,595,929)**	2,817,980	1,113,732	**(6,591,667)**	2,794,523	1,016,785
Loans and receivables	**(3,634,589)**	(16,570,998)	(3,340,791)	**(5,257,150)**	(16,474,671)	(3,487,277)
Other assets	**2,499**	151,406	(157,325)	**62,684**	391,451	(92,454)
Increase (decrease):						
Deposit liabilities	**(518,574)**	5,325,607	(538,093)	**565,918**	2,813,927	1,911,982
Derivative liabilities	**15,655**	(47,984)	(207,258)	**9,675**	(40,230)	(208,336)
Manager's checks and demand drafts outstanding	**(489,466)**	509,825	(2,019)	**(481,852)**	501,996	(6,792)
Accrued taxes, interest and other expenses	**178,000**	59,174	77,735	**118,390**	47,149	45,855
Insurance provisions and liabilities	**(19,059)**	57,572	(14,173)	**–**	–	–
Other liabilities	**(511,456)**	256,410	1,540,642	**(436,650)**	866,641	664,261
Net cash generated from (used in) operations	**(8,778,966)**	(4,437,144)	1,688,928	**(10,486,352)**	(7,360,740)	2,141,120
Income taxes paid	**(618,286)**	(557,602)	(626,858)	**(490,057)**	(420,786)	(542,268)
Net cash provided by (used in) operating activities	**(9,397,252)**	(4,994,746)	1,062,070	**(10,976,409)**	(7,781,526)	1,598,852
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	**(20,450,348)**	(6,407,366)	(6,963,123)	**(16,616,790)**	(5,371,218)	(3,729,576)
Property and equipment (Note 10)	**(330,881)**	(298,131)	(408,582)	**(304,349)**	(261,653)	(348,477)
Held-to-maturity investments	**–**	(871,964)	(2,988,823)	**–**	(2,384,187)	(3,034,849)
Placements on other banks (Note 36)	**(5,570,309)**	–	–	**–**	–	–
Proceeds from sale of:						
Available-for-sale investments	**32,489,471**	9,392,447	2,282,364	**29,095,845**	10,540,096	2,123,795
Investment properties	**541,249**	500,589	881,293	**382,142**	492,128	775,763
Property and equipment (Note 10)	**16,897**	249,271	175,628	**33,351**	11,814	159,608
Net cash inflow (outflow) from sale and dissolution of subsidiary (Note 13)	**(358,545)**	–	–	**56,381**	–	–
Proceeds from placements on other banks	**–**	372,315	1,431,771	**–**	–	–
Proceeds from maturities of held-to-maturity investments	**–**	2,169,111	999,127	**–**	2,164,754	1,072,140
Net cash provided by (used in) investing activities	**6,337,534**	5,106,272	(4,590,345)	**12,646,580**	5,191,734	(2,981,596)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011 (As restated - Notes 2 and 35)	2010	2012	2011 (As restated - Notes 2 and 35)	2010
CASH FLOWS FROM FINANCING ACTIVITIES						
Increase (decrease) in the amount of:						
Bills payable	**₱44,311**	₱2,007,857	(₱1,109,488)	**₱471,521**	₱3,133,071	(₱1,052,184)
Margin deposits	**20,613**	(24,529)	(40,272)	**20,613**	(23,316)	(79,708)
Cash dividends paid	**(30,000)**	–	–	**(30,000)**	–	–
Net cash provided by (used in) financing activities	**34,924**	1,983,328	(1,149,760)	**462,134**	3,109,755	(1,131,892)
Cumulative translation adjustment	**(508,169)**	86,684	(571,385)	**39,775**	17,693	(21,558)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(3,532,963)**	2,181,538	(5,249,420)	**2,172,080**	537,656	(2,536,194)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**4,023,559**	4,636,820	5,113,295	**3,719,876**	4,280,874	4,775,049
Due from Bangko Sentral ng Pilipinas (BSP)	**18,286,303**	16,297,912	19,486,602	**18,174,486**	13,892,789	15,332,839
Due from other banks	**10,821,079**	7,442,201	9,720,051	**4,106,005**	2,938,976	2,405,729
Interbank loans receivable and securities purchased under resale agreements (SPURA)	**12,493,447**	15,058,026	15,346,140	**10,120,198**	14,470,270	15,605,486
Cash and cash equivalents attributed to disposal group classified as held-for-sale (Note 13)	**973,818**	981,709	–	–	–	–
	46,598,206	44,416,668	49,666,088	**36,120,565**	35,582,909	38,119,103
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**3,885,613**	4,023,559	4,636,820	**3,621,910**	3,719,876	4,280,874
Due from BSP	**26,082,603**	18,286,303	16,297,912	**25,897,693**	18,174,486	13,892,789
Due from other banks (Note 37)	**6,523,028**	10,821,079	7,442,201	**3,719,056**	4,106,005	2,938,976
Interbank loans receivable and SPURA (Notes 6 and 37)	**6,573,999**	12,493,447	15,058,026	**5,053,986**	10,120,198	14,470,270
Cash and cash equivalents attributed to disposal group classified as held-for-sale (Note 13)	–	973,818	981,709	–	–	–
	₱43,065,243	₱46,598,206	₱44,416,668	**₱38,292,645**	₱36,120,565	₱35,582,909
OPERATIONAL CASH FLOWS						
Interest received	**₱9,280,915**	₱9,587,459	₱9,582,499	**₱8,335,965**	₱8,384,697	₱8,823,619
Interest paid	**2,485,381**	2,885,642	2,874,497	**2,387,543**	2,686,178	2,803,829
Dividends received	**1,801**	2,028	13,773	**5,583**	3,692	15,194

See accompanying Notes to Financial Statements.

1. Corporate Information

Allied Banking Corporation (the Parent Company) is a publicly listed universal bank incorporated on April 11, 1977 and domiciled in the Philippines with registered office address at Allied Bank Center, 6754 Ayala Avenue, Makati City. The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, insurance, financing and leasing to personal, commercial, corporate and institutional clients through a network of 325 local and international branches and offices. Allied Banking Corporation is the ultimate parent company of the Group.

The Group's products and services include deposit taking, lending and related services, domestic and foreign fund transfers, treasury, foreign exchange and trust services. In addition, the Parent Company engages in regular financial derivatives as a means of reducing and managing the Parent Company's and its customers' exposures to credit risk, foreign exchange and interest rates.

2. Summary of SignificantAccounting Policies

Basis of Preparation
The accompanying financial statements have been prepared under the historical cost convention except for financial assets at fair value through profit or loss (FVPL) which includes derivative financial instruments, and available-for-sale (AFS) investments that have been measured at fair value, and property and equipment - land which have been measured at revalued amount, being its fair value at the date of the revaluation less any and subsequent accumulated impairment losses.

All values are rounded to the nearest thousand pesos (₱000) except when otherwise indicated.

The accompanying 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 is Philippine Peso and for the FCDU is United States Dollar (USD or US$). For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts and transactions.

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

Statement of Compliance
The financial statements of the Group and of the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Prior to 2011, the financial statements of the Group and the Parent Company were prepared in accordance with PFRS. In 2011, the Group and the Parent Company changed its accounting policies from PFRS to accounting principles generally accepted in the Philippines for banks (GAAP for banks) to avail of the exemption on tainting rules under Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement* provided by the

Securities and Exchange Commission (SEC) to financial institutions that participated in the bond exchange program. Under the exemption, the Group and the Parent Company were allowed to retain under held-to-maturity (HTM) investments received from the exchange amounting to ₱259.32 million and ₱203.11 million, respectively and the remaining unsold portfolio, provided that the gain from the exchange on July 19, 2011 of the Group and the Parent Company amounting to ₱3.53 million and ₱0.27 million, respectively, is deferred.

In 2012, to comply with the requirements of a stockholder, the Group and the Parent Company prepared their financial statements in accordance with PFRS. Accordingly, the 2011 financial statements have been restated for comparative purposes. The 2010 financial statements have not been restated since these have been prepared in accordance with PFRS. Under PFRS, the Group and the Parent Company are allowed to apply either PFRS 1, *First Time Adoption of Philippine Financial Reporting Standards* or PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, in accounting for the change from GAAP for banks to PFRS. The Group and the Parent Company adopted PAS 8. Refer to Note 35 for the effect of the change in accounting policy.

Presentation of Financial Statements

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (non-current) is presented in Note 21.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries and are prepared for the same reporting year as the Parent Company using consistent accounting policies.

The Parent Company's subsidiaries, which financial and operating policies are controlled by the Parent Company, follow (see Note 9):

	Effective Percentage of Ownership			
Subsidiary	2012	2011 and 2010	Country of Incorporation	Functional Currency
Banking				
Allied Savings Bank (ASB)	**100.00**	100.00	Philippines	Philippine Peso
Allied Bank Philippines (UK) Plc (ABUK)	**100.00**	100.00	United Kingdom	Great Britain Pound (GBP)
Allied Commercial Bank (ACB)	**51.00**	51.00	People's Republic of China	USD
Allied Banking Corporation (Hong Kong) Limited (ABCHKL)	**51.00**	51.00	Hong Kong	Hong Kong Dollar (HKD)
Foreign Exchange				
Allied Forex Corporation (AFC)	**–**	100.00	Philippines	Philippine Peso
Insurance				
PNB Life Insurance, Inc. (PLII)	**75.00**	75.00	Philippines	Philippine Peso
Leasing				
Allied Leasing and Finance Corporation (ALFC)	**57.21**	57.21	Philippines	Philippine Peso
Holding Company				
Oceanic Holding (BVI) Ltd. (OHBVI) (Note 13)	**27.78**	27.78	British Virgin Islands	USD

Subsidiaries are all entities over which the Parent Company 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 Parent Company controls another entity.

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

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions with subsidiaries are eliminated in full for consolidation purposes.

If the Group losses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- Derecognizes the carrying amount of any non-controlling interest.
- Derecognizes the cumulative translation differences, recorded in equity.
- Recognizes the fair value of the consideration received.
- Recognizes the fair value of any investment retained.
- Recognizes any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50% of the issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company. The Group has the ability to govern the financial and operating policies of OHBVI on the basis of the combined voting rights arising from its direct ownership and assigned voting rights of 70.56%.

OHBVI had a wholly-owned subsidiary, Oceanic Bank Holdings, Inc. (OBHI). As of December 31, 2012, the Group has no control over OBHI upon disposal made by OHBVI on September 22, 2012 (see Note 13). Prior to September 22, 2012, the accounts of OBHI are presented as disposal group classified as held-for-sale.

In the separate or parent company financial statements, investments in subsidiaries are carried at cost, less accumulated impairment in value. Dividends earned on these investments are recognized in the Parent Company's statement of income as declared by the respective board of directors (BOD) of the subsidiaries.

<u>Non-controlling Interests</u>
Non-controlling interests (NCI) represent the portion of net income or losses and the net assets not held by the Parent Company 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 equity holders of the Parent Company. Any losses applicable to the NCI interests in excess of the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests are accounted for as equity transactions.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PAS and PFRS which became effective as of January 1, 2012. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Group:

PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)*
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments have no impact on the Group's disclosures, financial position or performance since the Group does not have any continuing involvement in its derecognized assets.

PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendment)*
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments are effective for periods beginning on or after January 1, 2012.

The Group has land properties under PAS 16 carried under the revaluation model. These land properties are classified as ordinary assets for income tax purposes. As the jurisdiction in which the Group operates does not have a different tax charge for "sale" or "use" basis of assets classified as ordinary assets for income tax purposes, the amendment has no impact on the financial statements of the Group.

Significant Accounting Policies

Foreign Currency Translation
The consolidated and parent company financial statements are presented in Philippine Peso which is also the Parent Company's functional currency.

Transactions and balances
The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in USD. For financial reporting purposes, the monetary assets and liabilities of the FCDU and the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine pesos based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year and foreign currency-denominated income and expenses based on the spot exchange rate at the date of the transaction. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities are credited to or charged against operations in the period in which the rates change.

Nonmonetary 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. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU, foreign branches and subsidiaries
As at the reporting date, the assets and liabilities of the FCDU, foreign branches and subsidiaries are translated into the Parent Company's presentation currency (Philippine Peso) at the PDS closing rate prevailing at the statement of financial position date, and its income and expenses are translated at the PDS WAR (weighted average rate) for the year. Exchange differences arising on translation of monetary items are taken to other comprehensive income (OCI) under 'Equity adjustment from translation' for FCDU and foreign subsidiaries while under the statement of income for foreign branches. Assigned capital of foreign branches are translated using the original and historial rates upon the transfer of capital and not translated at every reporting date.

Upon disposal of or when the Parent Company ceases to have control over the foreign subsidiaries or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income 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 the settlement date. Derivatives are also recognized on settlement date basis. 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 assets and financial liabilities valued at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets into the following categories: financial assets at FVPL, AFS investments, HTM investments, and loans and receivables. Financial liabilities are categorized as financial liabilities at FVPL and other financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

Reclassification of financial assets
A financial asset is reclassified out of the FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

For a financial asset reclassified out of the AFS investments category to loans and receivables or HTM investments, any previous gain or loss on that asset that has been recognized in the OCI is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of asset using effective interest method. If the asset is subsequently determined to be impaired then the amount recorded in the OCI is recycled to the statement of income.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. An analysis of reclassified assets is disclosed in Note 7.

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

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 to 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 nonmarket observable data is used, 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 Group is a party to derivative instruments, particularly, forward exchange contracts, spots, interest rate swap, cross currency and warrants. These contracts are entered into as a service to customers, a means of reducing and managing the Group's foreign exchange risk and for trading purposes, but these are not entered into as accounting hedges. 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 the fair values of derivatives (except those accounted for as hedges) are taken directly to the statement of income and are included under '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, insurance contracts and debt investments contracts. These embedded derivatives include credit derivatives, put options and call options.

Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported in the statement of income, 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 derivatives 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.

Financial assets and financial liabilities designated at FVPL
Financial assets and financial liabilities classified in this category are designated by management on initial recognition when 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.

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

The Group has no financial assets and financial liabilities designated at FVPL as of December 31, 2012 and 2011 and January 1, 2011.

Financial assets and financial liabilities held-for-trading (HFT)
Financial assets and financial liabilities HFT are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in 'Dividends' under 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.

AFS investments
AFS investments include equity investments, money market papers and other debt instruments. Equity investments classified as AFS investments are those which are neither classified as HFT nor designated at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to liquidity requirements or changes in market conditions.

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 'Changes in net unrealized gains on AFS investments' in the OCI section of the statement of 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. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS debt investments are reported as 'Interest income' using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Dividends' under 'Miscellaneous income' when the right of payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income

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 reclassified as AFS investments. After initial measurement, these 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 effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables
This category includes due from Bangko Sentral ng Pilipinas (BSP), due from other banks, interbank loans receivable and securities purchased under resale agreement (SPURA), and loans and receivables. These are financial assets with fixed or determinable payments and fixed maturities that 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 'AFS investments'.

Loans and receivables include receivables arising from transactions on credit cards issued directly by the Parent Company and those credit cards issued through a credit card company which have tie-up arrangements with the Parent Company. Collection of receivables from credit cardholders of other banks is guaranteed by those banks with tie-up arrangements with the Parent Company.

Loans and receivables also include ALFC's lease contracts receivable and notes receivable financed which are stated at the outstanding balance, reduced by unearned lease income and unearned finance income, respectively, (included in 'Unearned interest and discount') and allowance for credit losses.

PLII's insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration.

After initial measurement, 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', and 'Loans and receivables' 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 and costs that are an integral part of the EIR. The amortization is included in the 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVPL, and comprises 'Deposit liabilities', 'Bills payable', 'Marginal deposits', 'Manager's checks and demand drafts outstanding', 'Subordinated debt' or other appropriate account titles for such borrowed funds, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, bills payable and other similar financial liabilities 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 assets
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; or
- 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 the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, 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 statement of income.

Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date ('repos' or 'SSURA') 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 SSURA and is considered 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'or 'SPURA') are not recognized in the statement of financial position. The corresponding cash paid including accrued interest, is recognized in the statement of financial position as SPURA, 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.

Offsetting Financial Instruments
Financial assets and financial liabilities 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.

Impairment of Financial Assets
The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where there are observable data indicating 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 carried at amortized cost
For financial assets carried at amortized cost which include due from BSP, due from banks, loans and receivables, interbank loans receivable, SPURA and HTM investments, the Group first assesses whether objective evidence of impairment exists for financial assets that are 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 assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged in the statement of income. Interest income continues to be recognized thereafter based on the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, 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. Loans, 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 a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit and impairment losses' account.

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, 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such 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.

For credit card receivables, the Group also uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The allowance for credit losses is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from monitoring of monthly peso movements between different stage buckets, from 1-day past due to 180-days past due. The net flow to write-off methodology relies on the last 24 months of net flow tables to establish a percentage ('net flow rate') of accounts receivable that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of statement of financial position date and the net flow rates determined for the current and each delinquency bucket. This gross provision is reduced by the estimated recoveries, which are also based on historical data, to arrive at the required allowance for credit losses.

AFS investments
For AFS investments, the Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income. 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 OCI 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, in subsequent year, 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.

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, any impairment is measured using the original EIR as calculated before the modification of terms and 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 credit and impairment losses' in the statement of income.

Non-current Assets Classified as Held-for-Sale
Non-current assets and disposal groups classified as held-for-sale are measured at the lower of the carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held-for-sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group).

In the statement of income of the reporting period, and of the comparable period of the previous years, income and expenses from discontinued operation are reported separate from the income and expense from continuing activities, down to the level of income after taxes.

Terminal Value of Leased Assets and Deposits on Finance Leases
The terminal 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 terminal value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Equity Adjustment from Conversion
The conversion of convertible debt requires the carrying value of the liability component at the time of conversion to be transferred into equity, irrespective of the fact that this may not be equivalent to the fair value of the debt at that time. The carrying amount of the liability is transferred to equity. There is no gain or loss on conversion at maturity.

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 has concluded that it is acting as a principal in all of its revenue arrangements. 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 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. The calculation takes into account all contractual terms of the financial instrument, 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.

Trading and investments securities gains - net
This account includes results arising from trading activities and all gains and losses from changes in fair value of HFT financial assets and financial liabilities. It also includes gains and losses realized from sale of AFS investments and early redemption by the issuer of HTM investments.

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

Service fees and commission income
The Group earns fee and commission income from a 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 card related fees, asset management fees, portfolio and other management fees, and advisory fees. 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 on 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 underwriting fees, corporate finance fees, commissions and handling charges 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. 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.

Interchange fee and awards revenue on credit cards
Discounts lodged under 'Interchange fees' are taken up as income upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Parent Company operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Parent Company. The points can then be redeemed for free products subject to a minimum number of points being obtained. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Rental
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 on loans and receivables financed with short-term maturities is recognized using the EIR.

Interest and finance fees on finance leases and loans and receivables financed with long-term maturities and the excess of the aggregate lease rentals plus the estimated terminal value of the leased equipment over its cost are credited to unearned discount and amortized over the term of the note or lease using the EIR.

Premium income
Gross earned recurring premiums from life insurance contracts are recognized as revenue when payable by the policyholder. For gross earned single premium business, revenue is recognized on the date from which the policy is effective. For regular premium contracts, receivables are recorded at the date when payments are due.

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 collectability of the sales price is reasonably assured.

<u>Expense Recognition</u>
Expenses are recognized when it is probable that decrease in future economic benefits related to the decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of ordinary regular activities of the Group include among others the operating expenses on the Group's operation.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable and SPURA with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Investments in Subsidiaries

Investments in subsidiaries

Subsidiaries pertain to all 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 accounting policy on Basis of Consolidation).

In the Parent Company financial statements, investments in subsidiaries are carried at cost, less allowance for impairment losses.

Property and Equipment

Except for land, property and equipment is stated at cost, less accumulated depreciation and amortization, and any impairment in value.

Land is carried at revalued amounts as determined by an independent firm of appraisers. The appraisal increase resulting from the revaluation was credited to 'Revaluation increment in land - net' shown as part of OCI in the statement of comprehensive income. The revaluation method is used by the Group in accordance with PFRS, which is different from prudential reporting to the BSP which prescribes the cost model.

The initial cost of the Group's property and equipment consists of its purchase price, including import duties, taxes and any directly attributable cost to bring the property and equipment to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against current operations in the year 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 additional costs of property and equipment.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful life of the assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements. The annual depreciation and amortization rates are as follows:

Buildings	4.00%
Leasehold improvements	20.00% - 33 1/3% or over the period of tenancy, whichever is shorter
Furniture, fixtures and equipment	20.00% - 33 1/3%

The residual values, depreciation rates and the depreciation and amortization method are reviewed periodically to ensure that the rates and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

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

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 on 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 period the asset is derecognized.

Investment Properties
Investment properties are initially measured at cost, including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless the exchange lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Any gain or loss on the exchange is recognized in 'Gain on acquisition of investment properties'. Foreclosed properties are classified as 'Investment properties' upon:

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

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

Subsequent to initial recognition, depreciable investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

Depreciation is calculated on a straight-line basis using the estimated useful life from the time of acquisition of the investment properties.

The estimated useful life of the depreciable investment properties which generally include building and improvements ranges from 25 to 50 years.

Investment properties are derecognized when they have either been disposed of or when the investment properties are 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 in 'Miscellaneous income' in the year of retirement or disposal.

Transfers are made to investment property only when there is a change in use evidenced by cessation of owner-occupation or of construction or development, or commencement of an operating lease to another party. Transfers are made from investment property 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.

Business Combinations and Goodwill

Business combination after January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date in the statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in the statement of income or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of fair value of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Business combinations prior to January 1, 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. However, transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangibles assets with finite lives are amortized over the useful or economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category consistent with the function of the intangible asset.

Impairment of Nonfinancial Assets
Property and equipment, investment properties, and investments in subsidiaries
At each reporting date, the Group assesses whether there is any indication that its non financial assets 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 (or cash-generating unit'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 (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) 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 (or cash-generating unit).

An impairment loss is charged to operations or to the revaluation increment for assets carried at revalued amount, in the year in which it arises.

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, 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 expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at statement of financial position date.

Classification of Insurance and Investment Contracts
PLII issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, PLII defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10.00% more than what would be payable if the policy was surrendered.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Based on PLII guidelines, all products in the portfolio are considered insurance contracts, including unit-linked products, which contain features that make use of funds specifically segregated for the benefit of unit-linked policyholders.

Insurance Contract Liabilities
Life insurance liabilities
Life insurance liabilities refer to liabilities of the company that are recognized due to the obligations arising from policy contracts issued by PLII. The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations.

Insurance contracts with fixed and guaranteed terms
The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

For unpaid claims and benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the statement of financial position date less reinsurance recoveries, using the information available at the time.

Provision is also made for the cost of claims incurred but not reported (IBNR) until after the statement of financial position date based on the PLII's experience and historical data. Differences between the provision for outstanding claims at the statement of financial position date and subsequent revisions and settlements are included in the statement of income in later years. Policy and contract claims payable forms part of the liability section of the statement of financial position under 'Insurance provisions'.

Aggregate reserve for life policies represents the accumulated total liability for policies in force on the statement of financial position date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions in accordance with statutory requirements and as approved by the IC, subject to the minimum liability adequacy test.

Reserve for Policyholders' Dividends
A number of insurance contracts are participating and contain a Discretionary Participating Feature (DPF). This feature entitles the policy holder to receive, as a supplement to guaranteed benefits, annual policy dividends that are credited at each policy anniversary, as long as the policy is in force. These annual policy dividends represent a portion of the theoritical investment and underwriting gains from the pool of contracts. Policy dividends are not guaranteed and may change based on the periodic experience review of PLII. Further, in accordance with regulatory requirements, dividends payable in the following year are prudently set-up as a liability in the statement of financial position.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the annual cash dividends at the time the product is priced. PLII may exercise its discretion to revise the dividend scale in consideration of the emerging actual experience on each block of participating policies. Reserve for dividends to policyholders on contracts with DPF is shown in the statement of financial position under 'Insurance provisions'.

There is no statutory requirement as to the level of eligible surplus that may be attributed to participating policyholders. The amount distributed to individual policyholders is at the discretion of PLII, subject to the endorsement of the Chief Finance Officer and approval by the BOD.

Liability Adequacy Test
At each statement of financial position date, liability adequacy tests are performed following the provisions of PFRS 4, *Insurance Contracts*, to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against the statement of income initially establishing a provision for losses arising from the liability adequacy tests. The adequacy of the liability on insurance contracts is tested based on the pricing assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of a new set of revised best estimate assumptions, such assumptions are used for the subsequent measurement of these liabilities.

Reinsurance
PLII 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 reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that PLII may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that PLII will receive from the reinsurer can be measured reliably. The impairment loss is charged to the statement of income.

Ceded reinsurance arrangements do not relieve the PLII from its obligations to policyholders. Premiums are presented on a gross basis. Reinsurance assets or liabilities are derecognized when the contractual right is extinguished or expired or when the contract is transferred to another party.

<u>Leases</u>
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 the 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. Contingent rental payable are recognized as expense in the year in which they are incurred.

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. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and are recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Retirement Benefits

Defined benefit plan

The Group has a non-contributory defined benefit retirement plan. The retirement cost of the Group 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 asset recognized in the statement of financial position in respect of defined benefit retirement plan is the fair value of plan assets at the statement of financial position date less present value of the defined benefit obligation, 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 10.00% of the higher of the defined benefit obligation or the fair value of plan assets at that date. These 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 statement of income, unless the changes to the retirement 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 value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined contribution plan

The Parent Company also contributes to its contributory, defined-contribution type employee investment savings plan based on shortfall in guaranteed return as defined in the plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Parent Company by the employees and is recorded as an expense under 'Compensation and fringe benefits' in the statement of income. Unpaid contributions, if any, are recorded as a liability.

Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments 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 instrument 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 in accordance with PAS 39 that the Group incurs in connection with borrowing of funds.

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. Where 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. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense'.

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

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

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit 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. With respect to investments in foreign subsidiaries, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Deferred tax assets and deferred tax 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.

Earnings Per Share

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

Diluted EPS is calculated by dividing the net income attributable to common equity holders of the Parent Company by the weighted average number of common shares outstanding during the year adjusted for the effects of 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 its subsidiaries, and the BSP, in the case of cash dividends; and the BOD, shareholders of the Parent Company and the BSP in the case of stock dividends. Dividends for the year that are approved after the statement of financial position date are dealt with as a subsequent event.

Events after the Statement of Financial Position Date

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

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.

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. Financial information on business segments is presented in Note 29.

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.

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

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 amendments affect disclosures only and have no impact on the Group's financial position or performance.

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 to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013. The standard has no impact on the Group's financial position or performance.

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 (JV) must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013. The standard has no impact on the Group's financial position or performance since the Group currently has no interests in JV.

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.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs 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. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the impact that this standard will have on the financial position and performance.

PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI) (Amendments)*
The amendments to PAS 1 changed 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 has no impact on the Group's disclosures, financial position or performance since the Group currently has no OCI items which will never be reclassified to profit or loss. The amendment becomes effective for annual periods beginning on or after July 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 rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after

January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard and effect the remeasurement to other comprehensive income. The effects are detailed below:

	December 31, 2012	December 31, 2011	January 1, 2011
Increase (decrease) in the consolidated statement of financial position:			
Net defined benefit liability	₱937,302	₱1,513,403	₱1,215,884
Deferred tax liability	(277,984)	(448,257)	(364,139)
Other comprehensive income	(444,663)	(896,581)	(507,538)
Surplus	(68,925)	(280,562)	(498,109)
Non-controlling interests	(838)	(2,075)	(1,741)
Increase (decrease) in consolidated statement of income:			
Net retirement expense (included in 'Compensation and fringe benefits')	(223,542)	(89,472)	
Income tax expense	(37,066)	(26,821)	
Profit for the year			
Attributable to the owners of the Parent Company	186,767	62,789	
Attributable to non-controlling Interests	(109)	(206)	
Increase (decrease) in the consolidated statement of comprehensive income:			
Remeasurement of retirement obligation	468,301	389,892	
Income tax effect	(130,965)	(109,543)	
Increase (decrease) in the Parent Company statement of financial position:			
Net defined benefit liability	929,175	1,504,885	1,216,650
Deferred tax liability	(278,752)	(451,465)	(364,995)
Other comprehensive income	(433,743)	(886,168)	(508,651)
Surplus	(80,952)	(280,506)	(495,599)
Increase (decrease) in the Parent Company statement of income:			
Net retirement expense (included in 'Compensation and fringe benefits')	(223,284)	(89,283)	
Income tax expense	(36,985)	(26,785)	
Profit for the year	186,299	62,498	
Increase (decrease) in the Parent Company statement of comprehensive income:			
Remeasurement of retirement obligation	452,425	377,518	
Income tax effect	(135,728)	(113,255)	

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 adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. 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 JV in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of the amended PAS 28 will not have a significant impact on the Group's financial position or performance.

Philippine Interpretation International Financial Reporting Interpretations Committee(IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Group expects that this interpretation will not have any impact on its financial position or performance. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendments)*
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 amendments are 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. As the impact of the adoption depends on the Group's examination of the operational procedures applied by the settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement.* Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held

within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

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 the classification and measurement of financial liabilities.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

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. Since the Group is currently not engaged into any construction contracts, adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

Annual Improvements to PFRSs (2009-2011 cycle)
The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The Group had early adopted this annual improvement due to restrospective restatement and reclassification of HTM to AFS investments as discussed in Note 35. Accordingly, the Group made comparative information and supporting notes to the financial statements (see Note 35).

PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.

PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in accordance 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 at the reporting date. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and 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*

Group as lessor under operating leases
The Group has entered into commercial property leases on its investment properties. The Group has determined, based on an evaluation of the terms and conditions of the arrangements (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 the Group retains all significant risks and rewards of ownership of the properties it leased out on operating leases.

Group as lessee under operating leases
The Group has entered into property leases as a lessee for certain office premises. The Group has determined, based on an evaluation of the terms and conditions of the lease arrangements (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 all significant risks and rewards of ownership of the properties it leases are not transferred to the Group.

Finance lease
The Group has determined that based on an evaluation of the terms and conditions of lease arrangements, (i.e., its lessees has the option to purchase the leased assets at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable, the lease term under finance lease is for the major part of the economic life of the asset and at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased assets), that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

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 involve the use of mathematical models. The inputs to these models are taken from observable markets where possible. But where this is not feasible, a degree of judgment is required in establishing fair values. These judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives (see Note 5).

c) *HTM investments*
The classification under HTM investments 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 keep 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. Refer to Note 5 for the information on the fair value and carrying value of HTM investments. In 2011, the Group reclassified all their HTM investments to AFS investments as a result of the Group's participation in the bond exchange program of the Republic of the Philippines (see Notes 2 and 7).

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
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 clear and close economic relationship to the host contract.

f) Determination of functional currency
PAS 21, *The Effects of Changes in Foreign Exchange Rates,* 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, each entity in the Group considers the following:

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

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

h) Discontinued operation (disposal group)
In July 2010, the BOD approved the sale of the Parent Company's 27.78% interest in OHBVI in view of the impending merger with Philippine National Bank (PNB) and, therefore, classified it as a disposal group held for sale. The Parent Company considered the investment/operations to have met the criteria to be classified as held for sale at that date because OHBVI is available for immediate sale and can be sold to a potential buyer in its current condition and expects negotiations to be finalized and the sale to be completed within one year from statement of financial position date. Refer to Note 13 for the details on discontinued operation.

i) Going concern
The Group's management has made an assessment of its ability to continue as going concern. Management believes that it has the adequate resources to continue in business for the foreseeable future. Therefore the financial statements continue to be prepared on a going concern basis.

Estimates

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

In addition to allowance provided for individually significant loans and receivables over ₱5.0 million, the Group also provides allowance for credit exposures which are impaired though not yet specifically identified. Collective allowance is based on historical loss experience adjusted by effects of changes in factors that are indicative of incurred losses, based on characteristics of the individual risk groupings.

The carrying values of loans and receivables and the related allowances for credit losses of the Group and of the Parent Company are disclosed in Note 8.

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 internal valuation techniques. These internal valuation techniques uses generally accepted market valuation models. For models requiring inputs other than market observable data, management uses estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 5 for the information on the fair values of these investments and Note 7 for the information on the carrying values of these instrument.

c) *Valuation of unquoted equity securities*
The Group's investment in equity securities that do not have quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment losses.

Details of the carrying value of unquoted AFS equity securities of the Group and the Parent Company are disclosed in Note 7.

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

As of December 31, 2012 and 2011 and January 1, 2011, no allowance for impairment losses was provided on AFS debt investments. Details of the carrying value of AFS debt investments of the Group and the Parent Company are disclosed in Note 7.

e) *Impairment of AFS equity investments*
The Group treats AFS equity investments as impaired when there has been a significant or prolonged declined 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% decline of the original cost of investment, and 'prolonged' as 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, 2012 and 2011 and January 1, 2011, allowance for credit losses on AFS equity investments of the Group and Parent Company amounted to ₱64.86 million, ₱64.82 million and ₱64.82 million, respectively. Details of the carrying value of the AFS equity investments of the Group and Parent Company are disclosed in Note 7.

f) Recognition of deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income 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 recognized and unrecognized deferred tax assets for the Group and the Parent Company are disclosed in Note 27.

g) Present value of retirement obligation and other long-term benefits

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 plan 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.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting dates. The present values of the retirement obligation of the Group and of the Parent Company are disclosed in Note 24; while present values of the other employee benefits representing accumulated leave absences of the Group and of the Parent Company are disclosed in Note 17.

h) Impairment of nonfinancial assets

Investments in subsidiaries, property and equipment, investment properties and chattel mortgage properties

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 recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined as the higher between the fair value less costs to sell and value in use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The depreciation rates and depreciation and amortization method are reviewed periodically to ensure that the rates and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment, investment properties, and chattel mortgage properties.

The carrying values of investment in subsidiaries, property and equipment, investment properties and chattel mortgage properties of the Group and of the Parent Company, as applicable are disclosed in Notes 9, 10, 11, 12 and 13.

Goodwill
The Parent Company's management conducts an annual review for any impairment in value of the goodwill.

Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Parent Company estimated the discount rate used for the computation of the net present value by reference to its internal cost of capital.

Future cash flows from the business are estimated based on the theoretical annual income of the cash generating units. Average growth rate was derived from the average increase in annual income during the last 5 years.

As of December 31, 2012 and 2011, goodwill amounted to ₱88.94 million for the Group (see Note 12).

i) *Aggregate reserves for life policies*
In determining the aggregate reserves for life policies estimates are made as to the expected number of deaths, illness or injury for each of the years in which PLII is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Insurance Code (IC or the Code). The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

In accordance with the provision of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6.00% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

The carrying values of aggregate reserves for life policies, of the Group are disclosed in Note 19 and shown as part of the insurance provisions and liabilities account in the statements of financial position.

j) *Revaluation of property and equipment*
The Group measures land at revalued amount with changes in fair value being recognized in OCI. The Group's internal/external appraisers determine the fair value of the land to be recorded. The carrying value of the land under revaluation method of the Group and the Parent Company are disclosed in Note 10.

k) *Revenue recognition for customer loyalty program*
The Group estimates the fair value of the points awarded under the customer loyalty program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of the products that will be available for redemption in the future and customer preferences.

Points issued under the program expire and are valid only for one year. The estimated liability for unredeemed points is disclosed in Note 20.

4. Financial Risk Management Policies and Objectives

Introduction

The ability to manage risks effectively is vital for the Group to sustain its growth and continued value creation for its shareholders. Thus, the Group has established a risk management framework and governance structure that are intended to provide comprehensive controls and ongoing management of the major risks inherent in the Group's activities. Given its risk philosophy which defines its conservative risk management culture, juxtaposed with a revenue strategy, the Group's governance structure enables the implementation of the balance between maximizing returns and minimizing risks.

The Parent Company monitors the following most material risks the Group is exposed to:

- Credit Risk
- Market Risk
- Credit Concentration Risk
- Liquidity Risk
- Interest Rate Risk in Banking Book
- Operational Risk

The Group also has exposures to the following significant risks that are managed as defined in the Bank's Internal Capital Adequacy Assessment Process (ICAAP):

- Information Technology & Information Security Risks
- Reputational Risk
- Strategic/Business Risk
- Compliance Risk
- Legal&Regulatory Risk
- Customer Franchise Risk
- Human Resource Risk

The Bangko Sentral ng Pilipinas (BSP) issued Circular No. 639 dated January 15, 2009 about ICAAP and Supervisory Review Process (SRP) setting out guidelines that universal banks and commercial banks, on a group-wide basis, should follow in the design and use of their banks' ICAAP. The ICAAP supplements the BSP's Risk-Based Capital Adequacy Framework for the Philippine banking system conforming to Basel II recommendations as contained in Circular No. 538 issued in August 4, 2006.

Both circulars require that the Bank must have a process for assessing its capital adequacy relative to its profile. It is the Bank's responsibility to set internal capital targets that are consistent with its risk profile, operating environment, and strategic/business plans. The Bank's ICAAP and all policies supporting it and including results thereof, are formally documented and reviewed by the Board and Senior Management at least annually, or as often as is deemed necessary notwithstanding the annual independent review. The Bank's ICAAP document is submitted to the BSP Central Point of Contact Department I every January 31 of each year. The Bank is committed to comply with the above-cited circulars.

Integration of the ERM Framework and Internal Capital Adequacy Assessment Process (ICAAP) Model

The integration of the Parent Company's Enterprise Risk Management (ERM) framework and the ICAAP Model ensures that the Group is able to capture all material and significant risks across all its business groups and subsidiaries. The Bank's ICAAP Model embodies the following five (5) key elements of an ICAAP, namely (1) board and senior management oversight, (2) risk assessment, (3) capital assessment and planning, (4) monitoring and reporting, and (5) internal control review.

The ICAAP Model, which consists of eight modules, provides the framework for the Board and Senior Management to assess, on an ongoing basis, the inherent risks and other material risks that the Parent Company is exposed to and ensure that the Parent Company maintains an appropriate level and quality of capital relative to these risks. The Group's ERM framework encompasses all the material risks that are not only monitored under their separate and distinct components, but also across the interrelated components. Further, by being fully aware of all material risks, the BOD and Senior Management can proactively manage the risks and adopt mitigating actions as needed.

Enterprise Risk Management Framework

The Bank has adopted the ERM Framework in assessing and managing its overall risks. This is performed coherently and collaboratively at three (3) levels, namely:

1. Strategic level
   Where the Board and Management Committees set revenue goals, define strategic plans, define the risk philosophy, mission and vision

2. Transactional level
   Where the business and operating units determine opportunities and take risks

3. Portfolio level
   Where the portfolio/position are captured and evaluated by independent third party, other than risk taking personnel

All three levels are focused on the four aspects of risk monitoring and form critical and integral components of the entire process which require a top-down process - from the BOD represented in the Risk Management Committee (RMC), Senior Management, to the different business and operating units, and down to individual risk-takers. Within these levels also exists a feedback mechanism not only to ensure that policies, limits, procedures are complied by all units, but also to guide top management in drawing up and reviewing bank-wide risk management strategies and policies.

The ERM framework was established by the Parent Company in full consideration of the need to justify the resources used in carrying out the following processes:

1. Risk Identification
2. Risk Measurement
3. Risk Evaluation and Analysis
4. Risk Monitoring, Control and Reporting

The risk assessment process employed by the Bank has two (2) major parts: (1) qualitative assessment of Pillar 1 and Pillar 2 risks using the Risk Control and Self Assessment (RCSA) - Risk Map, and (2) quantitative assessment of Pillar 1 risks (i.e. credit, market and operational risks) using methodologies following BSP Circular 538, and Pillar 2 risks using the RCSA Model.

The Group uses a set of principles that describes the risk management culture it wishes to sustain with the objective of maximizing risk-adjusted returns while remaining within its risk limits. The Group uses the allocation-of-risk-taking approach. The process requires qualitative analysis and quantification of the material risks affecting the risk assets of the Group and the allocation of the Group's capital to all its material risks, which encompasses the aforementioned Pillar 1 and Pillar 2 risks.

The Risk Management Division (RMD) in coordination with the Internal Audit and Compliance Division reviews the risk limits. The RMD, in conjunction with the business unit, recommends adjustments in the risk limits (upward or downward) as basis of the new or revised overall business strategies.

Information regarding material risk issues and compliance with policies and standards is communicated through the business and functional committees up to the group-level committees, and to the BOD for prompt decision-making on the Bank's risk and capital profile.

Allied Banking Corporation (ABC) ICAAP Document

The ICAAP Document, in its entirety, is the result of the implementation of the detailed assessment of the Group's capital adequacy relative to its risk profile. The ICAAP document, which is aligned to the BSP's Risk-Based Capital Adequacy Framework, is developed taking into consideration the Group's current priorities and is based on data gathered from various business units.

The Document contains detailed explanation of the Bank's ICAAP methodology as well as the related results and major issues arising from the Group's implementation of the assessment process. The document also serves as overall guidance to the Bank and its Subsidiaries in the implementation of the Bank's ICAAP, particularly, in the determination of the amount of capital sufficient to attain its strategic and business plans and cover its risk profile for the next three (3) years.

The Document comprises all of the Bank's procedures and measures designed to ensure:

- Identification and measurement of all material risks
- The appropriate level of internal capital in relation to the Bank's risk profile, and
- The application and further development of suitable risk management systems

This document is to be reviewed and approved by the Bank's Board of Directors and Senior Management at least on an annual basis, and submitted to the BSP every January 31 of each year.

Risk Responsibilities

The ERM function is managed through the continuous review, evaluation and agreement between the BOD and Senior Management.

The BOD is at the top of the risk management functional organization and has the primary responsibility to understand the nature and materiality of risks that the Bank faces, recommend sound practices, establish "checks and balances" and prevent conflicts of interest. It is responsible for ensuring good governance of the Group and establishing strategic objectives, policies and procedures that will guide and direct the activities of the Group and the means to attain the same as well as the mechanism for monitoring Management's performance.

The following committees and units are tasked to oversee the Group's risk management processes in accordance with the BOD's directives.

The Risk Management Committee (RMC) approves the risk management process, framework, policies, risk limits and infrastructure and is responsible for establishing and maintaining adequate risk management policy. The RMC is composed of designated members of the BOD and is tasked to ensure that the enterprise-wide risk management is properly executed and complied with by the Group. It shall oversee the identification, measurement, control and monitoring of credit, market, operational, and other risks the Group is exposed to. It is tasked to monitor the risk environment of the Group and provides direction for the activities to mitigate, to an acceptable level, the risks that may adversely affect the Group's ability to achieve its goals. The RMD, which is headed by the Chief Risk Officer (CRO), directly supports the RMC.

The Audit and Compliance Committee provides oversight function to the independent functions of Internal Audit and Compliance Divisions. The BOD authorizes the Audit and Compliance Committee to seek any information it requires from any employee (and all employees are directed to cooperate with any request made by the Committee) and external parties; to review and approve the annual compliance plan and audit plan and all major changes in the plan; and to review the effectiveness of the internal audit and compliance programs.

The Corporate Governance Committee (CGC) assists the BOD in fulfilling its corporate governance responsibilities. The CGC is responsible for providing oversight to the performance management and the conduct of good governance by the Group towards its stakeholders. The CGC ensures that written policies are promulgated to outline clear standard of performance.

The ICAAP Management Committee is chaired by the President and includes the ICAAP Core Team and all Profit and major Cost Centers Heads. The Committee meets on a quarterly basis, or as often as needed and is empowered to invite the head of any division/department, or subsidiary to deliberate on significant risks identified and the adequacy of controls undertaken to mitigate the risks.

The organizational structure includes a smaller body of experts, comprising of the Senior Management and/or Head of the Profit/Cost Centers and who reports to the President, and covers various areas of the Group's operations. Their responsibilities include understanding and evaluating the risk profile, ensuring that strategic directions and risk tolerance are effectively implemented, and ensuring appropriate risk mitigation are undertaken within their part of the business.

The Risk Management Division reviews risk exposures versus regulatory and approved internal limits, drafts risk policies, and assists line management in the formulation of risk reduction strategies compatible with the stipulated goals. Risk managers provide functional support for each major risk categories: credit risk, market risk, liquidity risk, operational risk, and other aforementioned material risks.

The management of the Group reviews the policies for managing each risk which are summarized as follows:

Management of Credit Risk

Credit risk is the risk to earnings or capital arising from a counterparty's failure to perform and meet the terms of its contract with the Group, subjecting the Group to a financial loss. Credit risk may last for the entire tenor and may approximate to the full amount of a transaction and in some cases may exceed the original principal exposure.

Credit risk is inherent in the Group's lending, trading, investments and other activities and the Group manages it in accordance with a credit risk management framework that spans from risk identification, measurement, control, monitoring and reporting.

The Group undertakes credit risk management at the strategic, transaction and portfolio levels. At the strategic level, the BOD sets annual revenue goals, target market and acceptance criteria and defines a credit risk philosophy to create a credit risk culture. Revenue goals are detailed in the business plan to include the amount of potential risks inherent in the identified revenue generation activities and corresponding measures that would address them.

At the transaction level, the Account Officers (AOs) engage in credit risk taking. They determine opportunities and decide on which to take amidst risks identified. They align their risk taking activities with the Group's revenue goals, ensure its compliance to standard credit risk policies and procedures and maintain its exposure within set limits. The Credit Policy & Evaluation Department supports AOs with credit evaluation reports, credit risk rating, collateral appraisals, gathering of credit information, account profiling and valuation.

On the other hand, the RMD monitors credit portfolio risks by developing risk tools/metrics and using them to measure and monitor credit portfolio risk. They monitor and report significant exposures on a borrower, group of borrowers and portfolio level as well as other critical credit risk matters for the information and further instruction of the RMC / BOD.

The Group adopts a two-pronged approach to credit risk management employing both qualitative and quantitative techniques to measure and monitor credit quality and risk. Assessment of individual credit exposures adopts the following two classification systems:

1. Internal Credit Risk Rating System
2. BSP System of Loan Classification

Internal Credit Risk Rating (ICRR) System

The ICRR is integrated in the loan approval process as well as in the periodic credit review. The ICRR consists of the Borrowers Risk Rating, which indicates the probability of default based on the borrower's credit worthiness, and the Facility Risk Factor, which measures the severity of an expected loss in case of the default of the borrower considering the different security arrangements (i.e. collateral, guarantees, etc.) and other risks relative to the facility.

The ICRR System is a 14-grade rating system, which first ten grades correspond to pass-ratings and last four corresponds to unfavorable quality ratings. The ICRR assigned at the time of approval determines the appropriate terms and conditions and subsequently, provides the basis for the decision on the loan application. As an inherent output of the credit review, the downward migration in ICRR prompts the implementation of corrective actions necessary to improve credit quality.

The following table shows the description of the ICCRS grade:

Credit Quality	CCRS Grade	Description
Satisfactory	1	Excellent
	2	Superior
	3	Strong
	4	Very Good
	5	Good
	6	Satisfactory
Acceptable	7	Average
	8	Acceptable
	9	Fair
Watchlist	10	Watchlist
	11	Especially Mentioned
	12	Substandard - Secured/Unsecured
	13	Doubtful
	14	Loss

The ICRRs of the Parent Company's business loans and receivables are defined below:

CRR 1 - Excellent
Exposure risk to a borrower with this rating is very minimal in view of its very low probability of going into default in the coming year. Borrowers under this category exhibit very high degree of stability, substance, and diversity and these characteristics merit them access to raise substantial amount of funds through the public market. These borrower-companies have management that has demonstrated competence under current business model and have profitability and debt-servicing capacity that is excellent and untainted. These borrowers are of the highest quality in the market under virtually all - economic conditions.

CRR 2 - Superior
This borrower differs from the highest rated borrower only to a small degree such that profitability and debt-servicing capacity are superior.

CRR 3 - Strong
Exposure risk to a borrower under this rating is low in view of nil default probability during the year. Borrowers with this rating exhibit strong income earning and debt servicing capacity. Their financial performance has been consistently favorable as shown by its conservative financial ratios. However, compared to the higher rated borrowers, this borrower would have easy access to the public market to raise funds only under normal economic conditions. Typical borrowers under this category are the established multinationals or local corporations which are well capitalized.

CRR 4 - Very good
Exposure risk to this borrower is still low based on its low default probability during the year. Borrowers with this rating exhibit very good income earning and debt servicing capacity. Their financial performance has been consistently favorable as shown by its conservative financial ratios. However, compared to the higher rated borrowers, this borrower would have good access to the public market to raise funds only under normal economic conditions. Typical borrowers under this category are the quality multinationals or local corporations which are well capitalized.

CRR 5 - Good
Exposure risk to this borrower is still quite low. Borrowers with this rating continue to exhibit good income earning and debt servicing capacity. Their financial performance remained favorable as shown by its conservative financial ratios. However, compared to the higher rated borrowers, this borrower would have good access to the public market to raise funds only under normal economic conditions. Typical borrowers under this category are local companies which are adequately capitalized.

CRR 6 - Satisfactory
Exposure risk to this borrower remains low on the basis of low default probability. Market and financial position is predicted to be favorable in the coming year based on the preceding three years' performance. Debt paying capacity shall continue to be satisfactory as shown by favorable financial performance ratios. This is generally considered as a satisfactory credit characterized by high qualitative, very good borrowing base or a first mortgage lien on very good quality assets.

CRR 7 - Average
Exposure risk is classified normal with clear indication of risk elements and moderate probability of default. These indicators are further established by the borrower's volatility of earnings, overall performance and limited access to public financial markets. It can withstand normal business cycles and adequately service its debt under the positive outlook of profit after tax in the current year. However, its capitalization is lower than normal in the industry.

CRR 8 - Acceptable
Exposure risk to this borrower is generally similar to an average risk rated borrower except that there is more pronounced probability of default and relatively unstable credit quality. Compared to higher rated borrowers, this borrower can only withstand business cycles under normal conditions and any prolonged unfavorable economic period would likely create deterioration beyond acceptable levels.

CRR 9 - Fair
Exposure risk is higher than normal because the risk elements for the Group are sufficiently pronounced. Borrower may still withstand normal business cycle; any prolonged unfavorable economic period would create an immediate deterioration beyond acceptable level. Financial strength in terms of balance sheet structure is below a level generally considered desirable for a new customer. However, strong cashflow merits a risk assessment that is acceptable.

CRR 10 - Watchlist
This rating refers to a borrower for which unfavorable industry or company - specific risk factors represent a concern. Its operating and financial performance is marginal and the borrower is generally perceived as not a good credit by financing institutions. Borrower may find it very hard to cope with any significant downturn and default is more than a possibility. Its credit exposure is not at risk of loss at the moment but performance of the borrower has weakened and could lead to losses unless present trends are reversed. Habitual delays in payment of principal and/or interest. This is the minimum risk rating for unclassified accounts.

CRR 11 - Especially mentioned
Borrowers are rated as such when its loan repayment is endangered by adverse economic or market conditions that may affect the borrower's ability to meet scheduled repayments. The following indicators of weakening financial position are evident: slow down in operations, weakening liquidity, or increasing leverage in the borrower's financial statements. Credit quality

is further weakened by decline in the value of collateral or any other adverse information that impairs the collateral quality or its enforceability. Loans are past due for more than 30 up to 90 days.

CRR 12 - Substandard - Secured/Unsecured
This is assigned to borrowers from whom collection of principal or interest becomes questionable regardless of scheduled payment date, by reason of well - defined weaknesses to adverse developments of a financial, managerial, economic, or political nature, or by important weaknesses in cover. Past due and circumstances are such that there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts. Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information. Loans past due for more than 90 days.

CRR 13 - Doubtful
This borrower is unable or unwilling to service debt over an extended period of time and near term prospects of orderly debt service are doubtful. Past due loans secured by real estate mortgage, the title of which is subject to an adverse claim rendering settlement of the loan through foreclosure doubtful. Loans wherein the possibility of loss is extremely high but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until a more status is determined.

CRR 14 - Loss
This borrower is generally classified as bad debt in view of lack of credit worthiness and weak debt servicing capacity. This condition is worsened by the lack of information on the borrower's whereabouts, its insolvency, impaired earning capability, lack of support from co-makers or guarantors and insignificant value of collateral.

BSP System of Loan Classification
In the BSP System of Loan Classification, existing loans are unclassified or classified based on the following indicators of the borrower's capability of fulfilling its obligation: compliance to terms and conditions, audited financial statements analyses, payment performance, documentation deficiency, collateral inadequacy and other technical defects. Expertise in judgment and discretion in evaluating the loans based on certain credit guidelines are also applied. The classification of the loan is used in the assessment of adequacy of loan loss provision as well as prompts the units handling the loans to correct deficiencies in documentation and collateral or resort to work out strategies before the account further deteriorates.

Unclassified loans
These are loans that do not have a greater-than normal risk and do not possess the characteristics of classified loans as defined below. The borrower has the apparent ability to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.

Classified loans
These are loans which possess the characteristics outlined hereunder. Classified loans are subdivided into (1) loans especially mentioned; (2) substandard; (3) doubtful; and (4) loss.

Especially mentioned
These are loans and advances that havepotential weaknesses that deserve management's close attention.

Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Group because of unfavorable record or unsatisfactory characteristics. There exists in such loans the possibility of future loss which has a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

Doubtful
These are loans or portions thereof which have the weaknesses inherent in those classified as '*Substandard*', 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.

Loss
These are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

Credit quality per class of financial assets

The following tables show the credit quality of financial assets:

	Consolidated				
	December 31, 2012				
	Loans and Receivables	Loans and Advances to Banks	Derivative Assets and Investment Securities	Others*	Total
Neither past due nor impaired	₱99,572,949	₱45,809,395	₱36,791,673	₱18,257,381	₱200,431,398
Past due but not impaired	746,589	–	–	–	746,589
Impaired	4,821,877	–	354,576	–	5,176,453
	105,141,415	45,809,395	37,146,249	18,257,381	206,354,440
Less unearned interest and discount	172,774	–	–	–	172,774
Capitalized interest	696	–	–	–	696
Allowance for credit losses	4,883,491	–	68,637	–	4,952,128
	₱100,084,454	₱45,809,395	₱37,077,612	₱18,257,381	₱201,228,842

	Consolidated					
	December 31, 2011 (As restated - Notes 2 and 35)					
	Loans and Receivables	Loans and Advances to Banks	Derivative Assets and Investment Securities	Others*	Financial Assets of Disposal Group Classified as Held-for-Sale** (Note 13)	Total
Neither past due nor impaired	₱95,934,606	₱41,685,678	₱40,814,649	₱29,181,095	₱7,611,645	₱215,227,673
Past due but not impaired	571,325	–	–	–	342,040	913,365
Impaired	4,649,139	–	279,776	–	206,399	5,135,314
	101,155,070	41,685,678	41,094,425	29,181,095	8,160,084	221,276,352
Less unearned interest and discount	251,070	–	–	–	8,812	259,882
Capitalized interest	3,605	–	–	–	–	3,605
Allowance for credit losses	3,441,045	–	64,824	–	80,929	3,586,798
	₱97,459,350	₱41,685,678	₱41,029,601	₱29,181,095	₱8,070,343	₱217,426,067

	Consolidated January 1, 2011					
	Loans and Receivables	Loans and Advances to Banks	Derivative Assets and Investment Securities	Others*	Financial Assets of Disposal Group Classified as Held-for-Sale** (Note 13)	Total
Neither past due nor impaired	₱80,041,147	₱38,798,139	₱44,856,566	₱24,754,538	₱8,108,765	₱196,559,155
Past due but not impaired	223,824	–	–	–	–	223,824
Impaired	4,404,329	–	170,203	–	24,112	4,598,644
	84,669,300	38,798,139	45,026,769	24,754,538	8,132,877	201,381,623
Less unearned interest and discount	238,763	–	–	–	9,075	247,838
Capitalized interest	3,328	–	–	–	–	3,328
Allowance for credit losses	3,250,295	–	75,872	–	85,839	3,412,006
	₱81,176,914	₱38,798,139	₱44,950,897	₱24,754,538	₱8,037,963	₱197,718,451

	Parent Company **December 31, 2012**				
	Loans and Receivables	**Loans and Advances to Banks**	**Derivative Assets and Investment Securities**	**Others***	**Total**
Neither past due nor impaired	**₱90,613,116**	**₱34,670,735**	**₱30,782,624**	**₱17,790,275**	**₱173,856,750**
Past due but not impaired	**591,308**	–	–	–	**591,308**
Impaired	**4,387,784**	–	**354,576**	–	**4,742,360**
	95,592,208	**34,670,735**	**31,137,200**	**17,790,275**	**179,190,418**
Less unearned interest and discount	**142,846**	–	–	–	**142,846**
Capitalized interest	**552**	–	–	–	**552**
Allowance for credit losses	**4,593,962**	–	**68,637**	–	**4,662,599**
	₱90,854,848	**₱34,670,735**	**₱31,068,563**	**₱17,790,275**	**₱174,384,421**

	Parent Company December 31, 2011 (As restated - Notes 2 and 35)				
	Loans and Receivables	Loans and Advances to Banks	Derivative Assets and Investment Securities	Others*	Total
Neither past due nor impaired	₱86,126,516	₱32,400,689	₱35,549,472	₱28,432,717	₱182,509,394
Past due but not impaired	327,024	–	–	–	327,024
Impaired	4,095,863	–	279,776	–	4,375,639
	90,549,403	32,400,689	35,829,248	28,432,717	187,212,057
Less unearned interest and discount	228,130	–	–	–	228,130
Capitalized interest	3,001	–	–	–	3,001
Allowance for credit losses	3,224,437	–	64,824	–	3,289,261
	₱87,093,835	₱32,400,689	₱35,764,424	₱28,432,717	₱183,691,665

	Parent Company January 1, 2011				
	Loans and Receivables	Loans and Advances to Banks	Derivative Assets and Investment Securities	Others*	Total
Neither past due nor impaired	₱70,331,503	₱31,302,035	₱40,742,573	₱24,233,307	₱166,609,418
Past due but not impaired	130,550	–	–	–	130,550
Impaired	3,890,156	–	170,203	–	4,060,359
	74,352,209	31,302,035	40,912,776	24,233,307	170,800,327
Less unearned interest and discount	196,719	–	–	–	196,719
Capitalized interest	2,724	–	–	–	2,724
Allowance for credit losses	3,042,637	–	75,872	–	3,118,509
	₱71,110,129	₱31,302,035	₱40,836,904	₱24,233,307	₱167,482,375

* Others include returned checks and other cash items, bond sinking fund, other investments, security deposits and contingent and commitments.

** Includes commitments.

For the ratings of Loans and advances to banks and Derivative assets and Investment securities, the Group depends on external credit ratings like Standard and Poors (S&P).

Refer also to Note 2 for the policy on impairment of financial assets of the Group and the Parent Company.

Credit ratings from S&P of Due from BSP and other banks, Interbank loans receivable and SPURA, Derivative assets and Investment securities (gross of allowance for credit and impairment losses) follow:

	Consolidated				
	December 31, 2012				
	AAA**	**AA to A**	**BBB**	**Below BBB and Unrated**	**Total**
Due from BSP, other banks, Interbank loans receivable and SPURA	**₱–**	**₱11,871,813**	**₱649,281**	**₱33,288,301**	**₱45,809,395**
Financial assets at FVPL					
Derivative assets*	**–**	**53**	**–**	**148,708**	**148,761**
Held-for-trading					
Debt securities - government	**–**	**–**	**–**	**6,359,061**	**6,359,061**
Debt securities - private	**–**	**310,605**	**–**	**510,715**	**821,320**
Equity securities	**–**	**–**	**–**	**46,384**	**46,384**
AFS investments					
Debt securities - government	**–**	**4,108**	**3,321,240**	**19,129,907**	**22,455,255**
Debt securities - private	**1,870,748**	**1,351,608**	**977,911**	**2,140,641**	**6,340,908**
Equity securities - quoted	**471,114**	**–**	**–**	**434,252**	**905,366**
Equity securities - unquoted	**–**	**–**	**–**	**69,194**	**69,194**
	₱2,341,862	**₱13,538,187**	**₱4,948,432**	**₱62,127,163**	**₱82,955,644**

	Consolidated				
	December 31, 2011 (As restated - Notes 2 and 35)				
	AAA**	AA to A	BBB	Below BBB and Unrated	Total
Due from BSP, other banks, Interbank loans receivable and SPURA	₱68,282	₱8,630,012	₱–	₱32,987,384	₱41,685,678
Financial assets at FVPL					
Derivative assets*	–	112,571	–	85,702	198,273
Held-for-trading					
Debt securities - government	–	–	–	430,880	430,880
Debt securities - private	–	–	–	18,352	18,352
Equity securities	–	–	–	50,264	50,264
AFS investments					
Debt securities - government	–	55,380	2,736,312	27,323,285	30,114,977
Debt securities - private	29,081	1,853,671	1,926,211	5,780,802	9,589,765
Equity securities - quoted	–	–	–	615,847	615,847
Equity securities - unquoted	–	–	–	76,067	76,067
	97,363	10,651,634	4,662,523	67,368,583	82,780,103
Due from other banks, interbank loans receivable and investment securities included in the disposal group held-for-sale (Note 13)	–	–	–	2,166,188	2,166,188
	₱97,363	₱10,651,634	₱4,662,523	₱69,534,771	₱84,946,291

	Consolidated				
	January 1, 2011				
	AAA**	AA to A	BBB	Below BBB and Unrated	Total
Due from BSP and other banks, Interbank loans receivable and SPURA	₱3,977,819	₱17,515,020	₱542,931	₱16,762,369	₱38,798,139
Financial assets at FVPL					
Derivative assets*	–	–	–	259,016	259,016
Held-for-trading					
Debt securities - government	798,957	–	–	2,027,071	2,826,028
Debt securities - private	–	–	–	349,515	349,515
Equity securities	–	–	–	72,452	72,452

(Forward)

	Consolidated				
	January 1, 2011				
	AAA**	AA to A	BBB	Below BBB and Unrated	Total
AFS investments					
Debt securities - government	₱251,916	₱48,612	₱735,538	₱14,376,163	₱15,412,229
Debt securities - private	–	1,061,953	358,514	3,375,186	4,795,653
Equity securities - quoted	–	–	–	269,015	269,015
Equity securities - unquoted	–	–	–	88,522	88,522
HTM investments					
Debt securities - government	–	–	–	13,541,105	13,541,105
Debt securities - private	27,928	1,460,664	1,344,731	4,579,911	7,413,234
	5,056,620	20,086,249	2,981,714	55,700,325	83,824,908
Due from other banks and investment securities included in the disposal group held-for-sale (Note 12)	–	–	–	1,874,073	1,874,073
	₱5,056,620	₱20,086,249	₱2,981,714	₱57,574,398	₱85,698,981

	Parent Company				
	December 31, 2012				
	AAA**	**AA to A**	**BBB**	**Below BBB and Unrated**	**Total**
Due from BSP, other banks, Interbank loans receivable and SPURA	**₱–**	**₱4,243,122**	**₱4,530**	**₱30,423,083**	**₱34,670,735**
Financial assets at FVPL					
Derivative assets*	–	–	–	**150,023**	**150,023**
Held-for-trading					
Debt securities - government	–	–	–	**6,359,061**	**6,359,061**
Debt securities - private	–	**310,605**	–	**510,715**	**821,320**
Equity securities	–	–	–	**46,384**	**46,384**
AFS investments					
Debt securities - government	–	**4,108**	–	**19,124,662**	**19,128,770**
Debt securities - private	**24,798**	**1,039,833**	**927,860**	**2,135,715**	**4,128,206**
Equity securities - quoted	–	–	–	**434,252**	**434,252**
Equity securities - unquoted	–	–	–	**69,184**	**69,184**
	₱24,798	**₱5,597,668**	**₱932,390**	**₱59,253,079**	**₱65,807,935**

	Parent Company				
	December 31, 2011 (As restated - Notes 2 and 35)				
	AAA**	AA to A	BBB	Below BBB and Unrated	Total
Due from BSP, other banks, Interbank loans receivable and SPURA	₱–	₱4,551,000	₱–	₱27,849,689	₱32,400,689
Financial assets at FVPL					
Derivative assets*	–	111,655	–	85,188	196,843
Held-for-trading					
Debt securities - government	–	–	–	430,880	430,880
Debt securities - private	–	–	–	18,352	18,352
Equity securities	–	–	–	50,264	50,264
AFS investments					
Debt securities - government	–	55,380	–	26,919,932	26,975,312
Debt securities - private	29,081	1,449,293	1,851,824	4,419,414	7,749,612
Equity securities - quoted	–	–	–	331,918	331,918
Equity securities - unquoted	–	–	–	76,067	76,067
	₱29,081	₱6,167,328	₱1,851,824	₱60,181,704	₱68,229,937

	Parent Company				
	January 1, 2011				
	AAA**	AA to A	BBB	Below BBB and Unrated	Total
Due from BSP, other banks, Interbank loans receivable and SPURA	₱–	₱14,690,930	₱1,754	₱16,609,351	₱31,302,035
Financial assets at FVPL					
Derivative assets*	–	–	–	258,946	258,946
Held-for-trading					
Debt securities - government	798,957	–	–	2,027,071	2,826,028
Debt securities - private	–	–	–	349,515	349,515
Equity securities	–	–	–	72,452	72,452
AFS investments					
Debt securities - government	251,916	48,612	735,538	12,984,787	14,020,853
Debt securities - private	–	484,373	271,450	2,666,796	3,422,619
Equity securities - quoted	–	–	–	142,588	142,588
Equity securities - unquoted	–	–	–	88,522	88,522
HTM investments					
Debt securities - government	–	–	–	13,501,104	13,501,104
Debt securities - private	27,928	1,460,664	1,344,732	3,396,825	6,230,149
	₱1,078,801	₱16,684,579	₱2,353,474	₱52,097,957	₱72,214,811

* Unrated derivative assets pertain to swaps and forwards.
** Investment securities under AAA rating relate to nonresident government, private debt and equity securities.

The tables below show the Group and the Parent Company's neither past due nor impaired loans and receivable (including financial assets of disposal group classified as held-for-sale), gross of allowance for credit losses and unearned interest and discounts and capitalized interest.

	Consolidated				
	December 31, 2012				
	Satisfactory	**Acceptable**	**Watchlist**	**Unrated**	**Total**
Loans and receivables					
Corporate	**₱47,428,543**	**₱8,874,977**	**₱5,791,706**	**₱869,045**	**₱62,964,271**
Small business	**11,691,342**	**2,027,650**	**1,916,370**	**1,014,917**	**16,650,279**
Consumer	**3,197,559**	**399,060**	**328,926**	**6,987,770**	**10,913,315**
Other receivables	**151,656**	**528,911**	**–**	**8,364,517**	**9,045,084**
	₱62,469,100	**₱11,830,598**	**₱8,037,002**	**₱17,236,249**	**₱99,572,949**

	Consolidated					
	December 31, 2011					
	Satisfactory	Acceptable	Watchlist	Unrated	Financial Assets of Disposal Group Classified as Held-for-Sale (Note 13)	Total
Loans and receivables						
Corporate	₱46,444,807	₱8,587,197	₱7,452,419	₱215,014	₱4,711,361	₱67,410,798
Small business	9,675,112	1,323,151	2,095,163	923,950	–	14,017,376
Consumer	4,243,484	309,491	2,994,249	2,152,776	–	9,700,000
Other receivables	623,893	–	–	8,893,900	–	9,517,793
	₱60,987,296	₱10,219,839	₱12,541,831	₱12,185,640	₱4,711,361	₱100,645,967

	Parent Company				
	December 31, 2012				
	Satisfactory	**Acceptable**	**Watchlist**	**Unrated**	**Total**
Loans and receivables					
Corporate	**₱45,347,257**	**₱8,750,891**	**₱5,576,872**	**₱869,041**	**₱60,544,061**
Small business	**8,423,369**	**1,970,151**	**1,846,336**	**1,014,917**	**13,254,773**
Consumer	**1,127,362**	**336,268**	**236,763**	**6,987,770**	**8,688,163**
Other receivables	**–**	**–**	**–**	**8,126,119**	**8,126,119**
	₱54,897,988	**₱11,057,310**	**₱7,659,971**	**₱16,997,847**	**₱90,613,116**

	Parent Company				
	December 31, 2011				
	Satisfactory	Acceptable	Watchlist	Unrated	Total
Loans and receivables					
Corporate	₱42,432,696	₱8,587,197	₱7,452,419	₱213,753	₱58,686,065
Small business	6,320,029	1,323,151	2,003,688	923,950	10,570,818
Consumer	2,547,411	309,491	2,909,408	2,152,776	7,919,086
Other receivables	–	–	–	8,950,547	8,950,547
	₱51,300,136	₱10,219,839	₱12,365,515	₱12,241,026	₱86,126,516

The tables below show the aging analysis of past due but not impaired loans and receivables per class and the fair value of the collateral:

	Consolidated					
	December 31, 2012					
	31-90 days	**91-180 days**	**181 days-1 year**	**More than 1 year**	**Total**	**Fair Market Value**
Corporate	**₱187,347**	**₱35,401**	**₱7,650**	**₱22,349**	**₱252,747**	**₱66,730**
Small business	**133,566**	**56,170**	**9,438**	**151,718**	**350,892**	**587,799**
Consumer	**40,543**	**40,720**	**28,821**	**32,866**	**142,950**	**461,920**
	₱361,456	**₱132,291**	**₱45,909**	**₱206,933**	**₱746,589**	**₱1,116,449**

	Consolidated					
	December 31, 2011					
	31-90 days	91-180 days	181 days-1 year	More than 1 year	Total	Fair Market Value
Corporate	₱52,315	₱–	₱6,216	₱193,221	₱251,752	₱328,807
Small business	18,184	48,475	22,034	151,787	240,480	439,231
Consumer	18,036	11,789	790	48,478	79,093	80,159
	₱88,535	₱60,264	₱29,040	₱393,486	₱571,325	₱848,197

	Parent Company					
	December 31, 2012					
	31-90 days	**91-180 days**	**181 days-1 year**	**More than 1 year**	**Total**	**Fair Market Value**
Corporate	**₱128,914**	**₱–**	**₱5,000**	**₱18,945**	**₱152,859**	**₱59,710**
Small business	**122,327**	**53,830**	**8,447**	**146,100**	**330,704**	**551,991**
Consumer	**40,189**	**21,292**	**24,453**	**21,811**	**107,745**	**394,183**
	₱291,430	**₱75,122**	**₱37,900**	**₱186,856**	**₱591,308**	**₱1,005,884**

	Parent Company					
	December 31, 2011					
	31-90 days	91-180 days	181 days-1 year	More than 1 year	Total	Fair Market Value
Corporate	₱–	₱–	₱–	₱49,393	₱49,393	₱125,067
Small business	8,558	46,259	19,606	143,465	217,888	415,293
Consumer	–	11,789	–	47,954	59,743	62,707
	₱8,558	₱58,048	₱19,606	₱240,812	₱327,024	₱603,067

Credit-related commitment risks

Commitment to extend credit represents unused portions of authorizations to extend credit in the form of loans, guarantees, or letters of credit. With these, the Group is potentially exposed to loss in the amount equal to the total unused commitments. However, the likely amount of potential loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk of certain loans and receivables after taking into account any collateral held or other credit enhancements is shown below:

	December 31, 2012					
	Consolidated			Parent Company		
	Carrying Amount	Fair Value of Collateral	Net Maximum Exposure	Carrying Amount	Fair Value of Collateral	Net Maximum Exposure
Credit risk exposure relating to on-balance sheet assets are as follows:						
SPURA	**₱142,000**	**₱142,000**	**₱–**	**₱–**	**₱–**	**₱–**
Receivables from customers:						
Corporate	**25,845,242**	**38,612,331**	**5,653,423**	**23,620,807**	**36,136,487**	**5,443,662**
Small business	**11,782,707**	**23,069,406**	**2,157,803**	**8,965,531**	**16,607,527**	**2,037,986**
Consumer	**6,310,650**	**11,201,196**	**568,880**	**4,264,665**	**6,956,192**	**404,561**
	43,938,599	**72,882,933**	**8,380,106**	**36,851,003**	**59,700,206**	**7,886,209**
	₱44,080,599	**₱73,024,933**	**₱8,380,106**	**₱36,851,003**	**₱59,700,206**	**₱7,886,209**

	December 31, 2011					
	Consolidated			Parent Company		
	Carrying Amount	Fair Value of Collateral	Net Maximum Exposure	Carrying Amount	Fair Value of Collateral	Net Maximum Exposure
Credit risk exposure relating to on-balance sheet assets are as follows:						
SPURA	₱6,800,000	₱6,800,000	₱–	₱6,700,000	₱6,700,000	₱–
Receivables from customers:						
Corporate	17,727,665	23,263,845	6,748,448	17,138,773	21,999,064	6,733,472
Small business	7,695,742	16,068,231	114,219	7,459,526	14,942,755	102,079
Consumer	3,174,589	5,635,889	95,685	2,989,175	5,205,233	73,819
	28,597,996	44,967,965	6,958,352	27,587,474	42,147,052	6,909,370
	₱35,397,996	₱51,767,965	₱6,958,352	₱34,287,474	₱48,847,052	₱6,909,370

	January 1, 2011					
	Consolidated			Parent Company		
	Carrying Amount	Fair Value of Collateral	Net Maximum Exposure	Carrying Amount	Fair Value of Collateral	Net Maximum Exposure
Credit risk exposure relating to on-balance sheet assets are as follows:						
SPURA	₱12,100,000	₱12,100,000	₱–	₱12,100,000	₱12,100,000	₱–
Receivables from customers:						
Corporate	14,438,524	19,100,481	3,141,203	13,966,527	18,420,888	3,050,117
Small business	5,491,682	27,227,802	165,172	5,302,141	26,866,850	148,909
Consumer	4,632,953	7,062,436	49,849	4,477,245	6,753,039	31,947
	24,563,159	53,390,719	3,356,224	23,745,913	52,040,777	3,230,973
	₱36,663,159	₱65,490,719	₱3,356,224	₱35,845,913	₱64,140,777	₱3,230,973

The carrying value as of December 31, 2012 and 2011 and January 1, 2011 of the other financial assets represent the maximum exposure to credit risk as at reporting date.

Management of Excessive Concentration Risk
Concentration of credit risk arise when a number of counterparties belong to a group controlled by a family or a conglomerate or are engaged in similar business activities or economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. Concentrations indicate the relative sensitivity of the Group performance to developments affecting a particular industry or geographical location.

The Group manages concentration risk by way of credit limit policies and internal/regulatory limit monitoring and reporting procedures. It implements policies on maximum credit exposure to individual borrowers, group of related borrowers, borrowers under specific industries (like real estate) or in specific countries to develop a diversified portfolio and avoid excessive concentrations of risk. While counterparty limits are set to restrict exposures to banks and other financial institutions covering on-books and off-balance sheet exposures, as well as settlement risk limits in relation to trading transactions, e.g., forward foreign exchange contracts. The Group analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. Further analysis is undertaken based on breaches to internal and regulatory limits. 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.

Concentration of risks of financial assets with credit risk exposure
An industry analysis of concentrations of credit risk at the statement of financial position date is shown below:

	Consolidated			Parent Company		
	December 31			December 31		
	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011
Financial institutions/intermediaries	₱56,596,820	₱57,911,453	₱46,124,698	₱44,235,382	₱46,461,441	₱38,005,762
Wholesale and retail trade	25,233,798	21,234,747	17,893,336	23,651,084	19,238,834	15,246,685
Manufacturing (various industries)	19,797,423	20,233,968	17,323,808	16,674,628	17,499,513	15,103,515
Real estate, renting and business activities	20,656,534	19,615,534	13,439,037	16,883,900	16,167,312	10,053,928
Transportation, storage and communication	10,121,464	13,352,243	12,117,997	9,899,354	13,111,886	11,925,962
Other community, social and personal activities	11,399,124	8,316,310	6,495,438	9,784,393	7,568,535	5,916,151
Agricultural, hunting and forestry	814,840	1,132,114	7,206,129	670,554	1,101,753	7,195,074
Others*	61,734,437	71,319,899	72,648,303	57,391,123	66,062,783	67,353,250
	206,354,440	213,116,268	193,248,746	179,190,418	187,212,057	170,800,327
Less: Unearned interest and discount	172,774	251,070	238,763	142,846	228,130	196,719
Capitalized interest	696	3,605	3,328	552	3,001	2,724
Allowance for credit losses	4,952,128	3,505,869	3,326,167	4,662,599	3,289,261	3,118,509
	201,228,842	209,355,724	189,680,488	174,384,421	183,691,665	167,482,375
Financial assets included in disposal group classified as held-for-sale (Note 13)	–	8,070,343	8,037,963	–	–	–
Total Credit Risk Exposure	₱201,228,842	₱217,426,067	₱197,718,451	₱174,384,421	₱183,691,665	₱167,482,375

* Others include community service and miscellaneous business.

A geographical analysis of concentration of credit risk at the statement of financial position date is shown below:

	Consolidated			Parent Company		
	December 31			December 31		
	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011
Philippines	₱164,572,652	₱157,066,749	₱142,468,771	₱152,137,477	₱146,362,822	₱136,547,799
Asia	16,265,450	18,204,206	13,194,191	3,637,450	5,515,709	3,350,794
United States	3,902,595	5,215,610	9,264,162	3,239,387	4,345,145	4,223,360
Europe	3,512,530	3,634,726	3,767,107	2,538,888	2,731,502	2,635,223
	188,253,227	184,121,291	168,694,231	161,553,202	158,955,178	146,757,176
Less: Unearned interest and discount	172,774	251,070	238,763	142,846	228,130	196,719
Capitalized interest	696	3,605	3,328	552	3,001	2,724
Allowance for credit losses	4,952,128	3,505,869	3,326,167	4,662,599	3,289,261	3,118,509
	183,127,629	180,360,747	165,125,973	156,747,205	155,434,786	143,439,224

(Forward)

	Consolidated			Parent Company		
	December 31			December 31		
	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011
Contingent accounts*	**₱7,016,072**	₱6,924,683	₱7,035,365	**₱6,577,391**	₱6,206,343	₱6,708,639
Commitments**	**11,085,141**	22,070,294	17,519,150	**11,059,825**	22,050,536	17,334,512
	18,101,213	28,994,977	24,554,515	**17,637,216**	28,256,879	24,043,151
	201,228,842	209,355,724	189,680,488	**174,384,421**	183,691,665	167,482,375
Financial assets included in disposal group classified as held-for-sale (Note 13)	**–**	8,075,343	8,037,963	**–**	–	–
Total Credit Risk Exposure	**₱201,228,842**	₱217,431,067	₱197,718,451	**₱174,384,421**	₱183,691,665	₱167,482,375

* These include unused commercial letters of credit, inward bills for collection, outward bills for collection, late deposits/payment received and others (see Note 32).

** These include unused credit card lines, outstanding guarantees issued and confirmed export letters of credit (see Note 32).

Note 8 shows information on the concentration of credit on loans and receivables from customers.

Collateral and other credit risk mitigation
The amount and type of collateral required depends on an assessment of the credit risk of the obligor. The Group implements certain requirements regarding the acceptability of types of collateral and valuation.

Collateral comes in the form of financial or non-financial assets. The main types of collateral obtained include cash or securities, charges over real estate properties, inventory and trade receivables, and mortgages over residential properties.

The Group monitors the market value of collateral, and request for additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowances for credit losses. The collateral consists of cash, securities, letters of guarantee and real and personal properties.

It is the Group's policy to dispose of investment properties in an orderly fashion. The proceeds are used to reduce or repay outstanding claim.

Management of Market Risk
Market risk is the potential loss that may arise from decrease in earnings due to the decline in prices or present value of future cash flows of financial instruments. The value of these financial instruments may change as a result of movements in interest rates, foreign exchange rates, equity prices and other market changes. The Group's market risk originates from its inventory of foreign exchange, debt and equity securities and freestanding derivatives.

Market Risk in the Trading Book
The BOD has set limits on the level of market risk acceptable to the Parent Company that is monitored by the Treasury Group on a daily basis. Exposure to market risk is estimated using the Value-at-Risk (VaR) methodology. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon at a given confidence level under normal market conditions.

VaR becomes an integral part of the Parent Company's market risk management through the VaR limits, which are established for all trading operations. VaR is calculated and monitored by RMD and reported to Treasury on a daily basis. An approval/ authorization matrix is established to manage results of VaR computation, particularly VaR limit breaches. Computed VaR level for the period, along with the corresponding VaR limits, the VaR limit breaches and corresponding approvals (if there are any) are all being reported to the RMC and BOD on a monthly basis.

VaR assumptions/parameters

The Parent Company utilizes an automated risk management solution to calculate VaR using a parametric method which assumes that returns follow a normal distribution. The VaR model makes use of a 99.00% confidence level and a one-day holding period for foreign exchange contracts exposures while a ten-day holding period for equity and fixed income exposures. This means that under a normal distribution assumption on asset return, the Parent Company's losses on trading activity will exceed the calculated VaR on 1 out of 100 trading days.

As of December 31, 2012 and 2011, the year-end, average, low and high VaR figures for the trading portfolio of the Parent Company are as follows:

	Foreign exchange contracts	Interest rate fixed income	Equity	Total
December 31, 2012	**₱1,925**	**₱175,509**	**₱2,116**	**₱179,550**
2012 - Average Daily	6,306	146,585	2,105	154,993
2012 - Highest	21,075	341,126	2,563	354,268
2012 - Lowest	–	32,451	1,523	37,150
December 31, 2011	–	10,366	2,338	12,704
2011 - Average Daily	7,229	96,268	2,363	105,368
2011 - Highest	30,622	231,149	2,863	251,923
2011 - Lowest	209	10,366	1,900	12,704

The high and low of the total trading portfolio may not equal to the sum of the individual components as the high and low of the individual portfolios may have occurred on different trading days. The Parent Company's total VaR does not consider the correlation among market risk factors. Further, equity VaR is estimated for internal monitoring purposes only.

Limitations of the VaR Methodology

The use of VaR has limitations because this model makes use of volatilities based on historical market prices and assumes that future price movements will follow a normal distribution. Hence, it may not clearly predict the future changes in risk factors and the effect of large market movements may be underestimated if the changes in risk factors fail to align with the normal distribution assumption. The VaR may also be under or over-estimated due to the use of assumptions on the risk factors. Likewise, the Parent Company's positions throughout the day varies but the VaR calculated only represents the positions as of end-of-day and it does not account for losses that may occur beyond the 99.00% confidence level.

Due to these limitations, the actual trading results may differ from the VaR calculations; in particular it does not provide a meaningful indication of possible losses during stressed market conditions. Hence, to determine the reliability of the VaR model, quarterly back-testing is employed. This exercise examines the accuracy of VaR estimates with the given assumptions and parameters.

The Bank uses 250 days of observations as prescribed by the Bank for International Settlements (BIS). One-day VaR estimate is compared against unrealized loss (marked-to-market in profit or loss). When unrealized P&L exceeds the VaR estimate, an exception occurs. The Bank uses the "traffic light" approach to interpret the back-testing results. Back-testing results are quarterly reported to the RMC and the BOD.

The Parent Company also employs stress testing to determine possible decline in the value of the portfolio which may occur under adverse market conditions to supplement the VaR. A more robust set of stress testing scenarios is being implemented by the Bank. These scenarios are as follows:

Scenario Type	Risk Factors	Scenario
Historical	Foreign Exchange (FX), Interest Rate, Equity Price	Asian Financial Crisis historical scenario in 1997 which caused a decline in the USDPHP rate by 15%, a doubling of the interest rates and a decrease in equity price by 25%
Historical	FX, Interest Rate	EDSA 2 historical scenario in Oct 2000 to Jan 2001 which resulted to an adverse movement in USDPHP rate by 10% and a one month increase in domestic interest rates by 480bps Change in Monetary Policy – amendments by the BSP in its policies causing variable shifts on prices and/or rates (e.g. adverse movement of the USDPHP by the 260-day volatility of the exchange rate; adverse movement on interest rates based on volatilities of benchmark rates, i.e. PDST-F for Peso-denominated securities and Libor rates for Dollar and other currency denominated securities
Historical	Equity, FX	2008 Subprime Crisis historical scenario which caused a decline in equity prices by 48% and resulted to an adverse movement in USDPHP rate by 21%
Historical	Equity, Interest Rate	Greek Debt Crisis scenario which suffered a drop in equity prices by 47% and government debt yield rose by 120%
Hypothetical	FX	A hypothetical 30% adverse movement in FX rates
Hypothetical	FX	A hypothetical 50% adverse movement in FX rates
Hypothetical	Interest Rate	A hypothetical change in interest rates by 100%

The Parent Company considers periodically whether the stress tests carried out are still adequate within the continuously changing risk environment. In particular, it ensures that assumptions regarding the risk profile and the external environment are still valid over time. Assessment of the adequacy of the stress test is conducted, particularly in the light of changes in portfolio characteristics or in the external environment, at least once a year.

The stress testing results are reported monthly to the RMC and the BOD. Back-testing results on the other hand are reported to the same level of management every quarter.

Management of Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from a financial institution's inability to meet its obligations when they come due without incurring unacceptable losses or costs. It includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to accommodate fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events. Sources of liquidity include deposits and other customer-based funding, and wholesale market-based funding. Liquidity is managed at two levels. The first is the liquidity of the Parent Company, which is the holding company that owns the banking and nonbanking subsidiaries. The second is the liquidity of the banking subsidiaries. The management of liquidity at both levels is essential because the Parent Company and banking subsidiaries have different funding needs and sources, and are subject to certain regulatory guidelines and requirements. The Group undertakes a conservative approach by imposing internal prudential limits that are in addition to regulatory requirements. This also incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed borrowing facilities in the form of commercial paper facilities and other stand-by facilities that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the BSP equal to 10.00% of customer deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important of these is to maintain limits on the ratio of net liquid asset to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale (i.e., FVPL and AFS investments), less deposits for banks and other issued securities to mature within the next month; while, customer liabilities consist of deposit liabilities and bills payable.

The net liquid asset to customer liabilities ratio of the Parent Company are as follows:

	2012	2011
Average during the period	**41.53%**	38.61%
Highest	**50.61**	44.07
Lowest	**34.88**	35.25

The Parent Company uses a set of tools to manage its liquidity risk, as follows:

Maximum Cumulative Outflow (MCO) is defined as the amount of prospective funding that the bank will require at pre-specified future dates in normal operating environment. This monetary amount is a measure of liquidity gap (difference) between the maturing liabilities and assets. In an MCO report, accounts are bucketed according to their residual maturity. On and off-balance sheet accounts are incorporated in the MCO analysis. This is prepared on a per currency basis and institutional basis. Subsidiaries and overseas branches prepare their individual MCO, as well.

An MCO Gap Limit complements the MCO tool. The MCO limit is set by the BOD to control cumulative net outflows resulting from maturity mismatches. The MCO cumulative gap limit is the maximum tolerable negative gap that the Bank can have at any tenor bucket. This is being monitored on a regular basis to safeguard our access to liquidity.

Stress testing, on the other hand, is employed both on the MCO report and the Bank's Capital Adequacy Ratio (CAR).

Relevant account items of the MCO report are simulated by altering the values/positions in the bucket distributions. This is to determine the funding needs under adverse scenarios as negative liquidity gap increases or positive liquidity gap decreases. Likewise, the CAR report is simulated to determine the resiliency of the Bank's CAR and its ability to withstand a range of stress events.

The Contingency Funding Plan (CFP), which is approved by the RMC and the BOD, is formulated to ensure that an organized structure for meeting various scenarios of liquidity crisis, which are aligned with the BOD-approved stress testing scenarios, are in place. It is a major requirement to ensure resilience under stressed conditions. This enumerates the events that may trigger contingency funding, the procedures in carrying out the plan, the detailed roles and responsibilities of all personnel in the event of contingencies, quantification of potential funding needs, criteria for selection of funding sources, sources of liquidity, asset-liability management strategies, and mechanism for monitoring potential liquidity crunch.

The following table summarizes the maturity profile of the Group and the Parent Company's financial instruments and gross-settled derivatives based on contractual undiscounted cash flows.

Financial assets
Analysis of equity and debt securities at FVPL into maturity groupings is based on the expected date on which these assets will be realized. For other financial 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 the expected date the assets will be realized.

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

	Consolidated					
	December 31, 2012					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
Financial Assets						
Cash and other cash items	₱3,885,613	₱–	₱–	₱–	₱–	₱3,885,613
Due from BSP	26,084,728					26,084,728
Due from other banks	6,490,421	2,442,833	4,269,441	–	–	13,202,695
Interbank loans receivable and SPURA	2,193,725	5,337,696	424,008	–	–	7,955,429
Financial assets at FVPL						
Derivative assets*						
Bifurcated	9,703	–	–	–	–	9,703
Pay	139,005	53	–	–	–	139,058
Held-for-trading	–	6,236	7,220,529	–	–	7,226,765
AFS investments	4,926	1,835,959	1,343,515	2,632,296	39,020,436	44,837,132
Loans and receivables						
Loans and discounts	4,715,426	38,182,056	9,137,719	8,025,539	46,352,431	106,413,171
Unquoted debt securities	66,836	49,521	86,531	2,856,606	3,461,303	6,520,797
Accrued interest receivable	312,854	645,030	25,762	100,717	612,038	1,696,401
Accounts receivable	919,836	8,146	1,123	78,360	8,317	1,015,782
Sales contracts receivable	14,726	21,570	106,421	195,649	232,987	571,353
Finance lease receivable	18,348	234	8,590	49,328	73,557	150,057
Other assets						
Returned checks & other cash items (RCOCI)	62,688	–	–	–	–	62,688
Bond sinking fund	–	50,000	–	–	–	50,000
Security deposit	–	–	–	36,622	–	36,622
Other investments	–	–	–	–	6,858	6,858
Total Financial Assets	₱44,918,835	₱48,579,334	₱22,623,639	₱13,975,117	₱89,767,927	₱219,864,852

(Forward)

	Consolidated					
	December 31, 2012					
	On Demand	**Less than 3 months**	**3-12 months**	**1-2 years**	**Over 2 years**	**Total**
Financial Liabilities						
Deposit liabilities						
Demand	₱51,759,063	₱–	₱–	₱–	₱–	₱51,759,063
Savings	32,990,348	33,725,866	979,332	–	–	67,695,546
Time	–	16,165,091	4,681,006	4,041,213	4,141,188	29,028,498
Derivative liabilities*						
Bifurcated	1,790	–	–	–	–	1,790
Pay	103,650	626	–	–	–	104,276
Bills payable	403	4,493,707	560,912	536	23,526	5,079,084
Marginal deposits	34,374	–	–	–	–	34,374
Manager's checks and demand drafts outstanding	438,543	–	–	–	–	438,543
Accrued interest payable	215,693	1,697	74	–	–	217,464
Subordinated debt	–	4,557,868	–	–	–	4,557,868
Insurance provision and liabilities	4,073,542	–	–	–	–	4,073,542
Other liabilities						
Accounts payable	1,537,025	–	–	–	–	1,537,025
Domestic bills purchased	1,479,122	–	–	–	–	1,479,122
Outstanding acceptances payable		302,648	–	–	–	302,648
Premium deposit fund	–	–	270,984	–	–	270,984
Due to Philippine Deposit Insurance Corporation (PDIC)	134,750	–	–	–	–	134,750
Due to other banks	67,481	–	–	–	–	67,481
Cash letters of credit	35,682	–	–	–	–	35,682
Payment orders payable	20,743	–	–	–	–	20,743
Due to Treasurer of the Philippines	2,324	–	–	–	–	2,324
Total Financial Liabilities	₱92,894,533	₱59,247,503	₱6,492,308	₱4,041,749	₱4,164,714	₱166,840,807

* Amounts are translated using spot rate as of December 31, 2012.

	Consolidated					
	December 31, 2011 (As restated - Notes 2 and 35)					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
Financial Assets						
Cash and other cash items	₱4,023,559	₱–	₱–	₱–	₱–	₱4,023,559
Due from BSP	18,292,303	–	–	–	–	18,292,303
Due from other banks	8,580,778	2,240,301	–	–	–	10,821,079
Interbank loans receivable and SPURA	6,800,000	5,725,145	84,849	–	–	12,609,994
Financial assets at FVPL						
Derivative assets*						
Bifurcated	–	–	–	–	10,362	10,362
Pay	–	113,671	–	74,240	–	187,911
Held-for-trading	–	505	498,991	–	–	499,496
AFS investments	–	6,368,739	1,925,570	4,521,333	56,470,501	69,286,143
Loans and receivables						
Loans and discounts	14,795,710	33,053,221	5,619,109	4,507,984	46,288,343	104,264,367
Unquoted debt securities	453,260	89,053	258,508	3,137,050	3,561,543	7,499,414
Accrued interest receivable	1,009,488	160,945	679,702	–	–	1,850,135
Sales contracts receivable	110,776	10,887	106,266	120,542	469,245	817,716
Accounts receivable	99,635	318,700	355,308	–	–	773,643
Finance lease receivable	–	1,288	23,613	33,553	113,977	172,431
Other assets						
RCOCI	84,621	–	–	–	–	84,621
Bond sinking fund	–	–	–	–	50,000	50,000
Security deposit	–	–	–	47,726	–	47,726
Other Investments	–	–	–	–	3,771	3,771
Total	54,250,130	48,082,455	9,551,916	12,442,428	106,967,742	231,294,671
Financial assets included in disposal group	7,466,355	–	–	–	–	7,466,355
Total Financial Assets	₱61,716,485	₱48,082,455	₱9,551,916	₱12,442,428	₱106,967,742	₱238,761,026

(Forward)

	Consolidated					
	December 31, 2011 (As restated - Notes 2 and 35)					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
Financial Liabilities						
Deposit liabilities						
Demand	₱45,490,521	₱–	₱–	₱–	₱–	₱45,490,521
Savings	72,098,581	–	–	–	–	72,098,581
Time	406,924	20,683,033	7,362,806	75,204	3,500,000	32,027,967
Derivative liabilities*						
Bifurcated	–	–	–	9,484	–	9,484
Pay	–	68,843	–	12,084	–	80,927
Bills payable	1,106,934	230,309	3,224,579	–	10,687	4,572,509
Marginal deposits	13,761	–	–	–	–	13,761
Manager's checks and demand drafts outstanding	928,009	–	–	–	–	928,009
Accrued interest payable	259,748	7,658	–	–	–	267,406
Subordinated debt	–	52,547	272,531	325,969	4,552,547	5,203,594
Insurance provision and liabilities	3,074,086	–	212,631	–	–	3,286,717
Other liabilities						
Accounts payable	1,353,952	–	–	–	–	1,353,952
Due to other banks	1,081,700	–	–	–	–	1,081,700
Domestic bills purchased	982,035	–	–	–	–	982,035
Premium deposit fund	–	–	265,117	–	–	265,117
Outstanding acceptances payable	–	148,294	85,613	–	–	233,907
Cash letters of credit	174,133	–	–	–	–	174,133
Due to PDIC	135,603	–	–	–	–	135,603
Payment orders payable	121,463	–	–	–	–	121,463
Due to Treasurer of the Philippines	2,984	–	–	–	–	2,984
Total	127,230,434	21,190,684	11,423,277	422,741	8,063,234	168,330,370
Financial liabilities included in disposal group	6,008,843	–	–	–	–	6,008,843
Total Financial Liabilities	₱133,239,277	₱21,190,684	₱11,423,277	₱422,741	₱8,063,234	₱174,339,213

* Amounts are translated using spot rate as of December 31, 2011.

	Consolidated					
	January 1, 2011					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
Financial Assets						
Cash and other cash items	₱4,636,820	₱–	₱–	₱–	₱–	₱4,636,820
Due from BSP	15,932,912	316,575	51,000	–	–	16,300,487
Due from other banks	4,372,125	516,502	2,607,266	–	–	7,495,893
Interbank loans receivable and SPURA	–	14,392,735	666,589	–	–	15,059,324
Financial assets at FVPL						
Derivative assets*						
Bifurcated	–	–	–	11,848	10,362	22,210
Pay	–	109,340	–	127,466	–	236,806
Held-for-trading	–	2,007,215	1,240,780	–	–	3,247,995
AFS investments	–	11,099,137	238,641	184,569	14,053,020	25,575,367
HTM investments	–	8,787,945	629,200	2,880,790	12,702,044	24,999,979
Loans and receivables						
Receivables from customers	14,198,674	25,327,902	3,929,311	2,972,777	36,147,127	82,575,791
Unquoted debt securities	–	58,526	324,198	14,187	14,342,177	14,739,088
Accrued interest receivable	1,647,114	45,593	17,345	–	–	1,710,052
Sales contracts receivable	20,993	43,849	192,203	58,143	465,514	780,702
Accounts receivable	708,538	–	26,956	137	–	735,631
Finance lease receivable	–	1,269	22,875	30,504	110,250	164,898
Other assets						
RCOCI	93,362	–	–	–	–	93,362
Security deposits	–	–	–	52,702	–	52,702
Bond sinking fund	–	–	–	–	50,000	50,000
Other investments	–	–	–	3,959	–	3,959
Total	41,610,538	62,706,588	9,946,364	6,337,082	77,880,494	198,481,066
Financial assets included in disposal group	7,271,861	–	–	–	–	7,271,861
Total Financial Assets	₱48,882,399	₱62,706,588	₱9,946,364	₱6,337,082	₱77,880,494	₱205,752,927

(Forward)

	Consolidated					
	January 1, 2011					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
Financial Liabilities						
Deposit liabilities:						
Demand	₱41,848,445	₱–	₱–	₱–	₱–	₱41,848,445
Savings	68,425,612	–	–	–	–	68,425,612
Time	–	26,892,530	1,152,790	245,000	3,908,333	32,198,653
Derivative liabilities*						
Bifurcated	–	–	–	–	30,693	30,693
Pay	–	107,702	–	–	–	107,702
Bills payable	–	804,482	799,085	–	12,639	1,616,206
Marginal deposits	37,094	1,196	–	–	–	38,290
Manager's checks and demand drafts outstanding	418,184	–	–	–	–	418,184
Accrued interest payable	–	211,410		–	–	211,410
Subordinated debt	–	78,213	–	625,711	4,782,224	5,486,148
Insurance provision	2,353,957	–	158,181	–	–	2,512,138
Other liabilities						
Domestic bills purchased	1,169,294	–	–	–	–	1,169,294
Accounts payable	1,095,489	–	–	–	–	1,095,489
Due to other banks	844,889	–	–	–	–	844,889
Outstanding acceptances payable	294,334	–	–	–	–	294,334
Premium deposit fund	213,119	–	–	–	–	213,119
Cash letters of credit	208,990	–	–	–	–	208,990
Payment orders payable	136,968	–	–	–	–	136,968
Due to PDIC	132,208	–	–	–	–	132,208
Due to Treasurer of the Philippines	2,772	–	–	–	–	2,772
Total	117,181,355	28,095,533	2,110,056	870,711	8,733,889	156,991,544
Financial liabilities included in disposal group	6,955,795	–	–	–	–	6,955,795
Total Financial Liabilities	₱124,137,150	₱28,095,533	₱2,110,056	₱870,711	₱8,733,889	₱163,947,339

* Amounts are translated using spot rate as of January 1, 2011.

	Parent Company					
	December 31, 2012					
	On Demand	**Less than 3 months**	**3-12 months**	**1-2 years**	**Over 2 years**	**Total**
Financial Assets						
Cash and other cash items	**₱3,621,910**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,621,910**
Due from BSP	**25,899,818**	–	–	–	–	**25,899,818**
Due from other banks	**3,719,056**	–	–	–	–	**3,719,056**
Interbank loans receivable and SPURA	**2,013,515**	**3,040,789**	–	–	–	**5,054,304**
Financial assets at FVPL						
Derivative assets*						
Bifurcated	**9,703**	–	–	–	–	**9,703**
Pay	**140,320**	–	–	–	–	**140,320**
Held-for-trading	–	**6,236**	**7,220,529**	–	–	**7,226,765**
AFS investments	–	**1,833,316**	**1,165,260**	**2,282,286**	**29,570,242**	**34,851,104**
Loans and receivable						
Receivables from customers	**4,482,733**	**36,267,430**	**7,723,481**	**7,358,568**	**42,010,319**	**97,842,531**
Unquoted debt securities	**10,086**	**16,855**	**85,204**	**2,806,606**	**3,161,303**	**6,080,054**
Accrued interest receivable	**295,341**	**423,881**	**11,543**	**100,717**	**612,038**	**1,443,520**
Accounts receivable	**826,242**	**4,637**	**1,051**	**92**	**6,194**	**838,216**
Sales contracts receivable	**14,726**	**21,570**	**100,046**	**194,952**	**228,103**	**559,397**
Other assets						
RCOCI	**62,527**	–	–	–	–	**62,527**
Bond sinking fund	–	**50,000**	–	–	–	**50,000**
Security deposits	–	–	–	**36,428**	–	**36,428**
Other investments	–	–	–	–	**4,103**	**4,103**
Total Financial Assets	**₱41,095,977**	**₱41,664,714**	**₱16,307,114**	**₱12,779,649**	**₱75,592,302**	**₱187,439,756**

(Forward)

	Parent Company					
	December 31, 2012					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
Financial Liabilities						
Deposit liabilities						
Demand	₱50,357,692	₱–	₱–	₱–	₱–	₱50,357,692
Savings	30,712,497	33,725,866	979,332	–	–	65,417,695
Time	–	11,549,689	2,535,533	4,041,213	4,141,188	22,267,623
Derivative liabilities*						
Bifurcated	1,790	–	–	–	–	1,790
Pay	104,965	–	–	–	–	104,965
Bills payable	403	4,489,210	504,485	–	24,984	5,019,082
Marginal deposits	34,374	–	–	–	–	34,374
Manager's checks and demand drafts outstanding	429,530	–	–	–	–	429,530
Accrued interest payable	175,335	–	–	–	–	175,335
Subordinated debt	–	4,557,868	–	–	–	4,557,868
Other liabilities						
Accounts payable	1,405,324	–	–	–	–	1,405,324
Domestic bills purchased	1,354,704	–	–	–	–	1,354,704
Outstanding acceptances payable	–	302,648	–	–	–	302,648
Due to PDIC	134,750	–	–	–	–	134,750
Due to other banks	67,481	–	–	–	–	67,481
Cash letters of credit	35,682	–	–	–	–	35,682
Payment orders payable	20,726	–	–	–	–	20,726
Due to Treasurer of the Philippines	2,296	–	–	–	–	2,296
Total Financial Liabilities	₱84,837,549	₱54,625,281	₱4,019,350	₱4,041,213	₱4,166,172	₱151,689,565

* Amounts are translated using spot rate as of December 31, 2012.

	Parent Company					
	December 31, 2011 (As restated - Notes 2 and 35)					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
Financial Assets						
Cash and other cash items	₱3,719,876	₱–	₱–	₱–	₱–	₱3,719,876
Due from BSP	18,180,487	–	–	–	–	18,180,487
Due from other banks	2,294,150	1,811,855	–	–	–	4,106,005
Interbank loans receivable and SPURA	6,700,000	3,451,896	–	–	–	10,151,896
Financial assets at FVPL						
Derivative assets*						
Bifurcated	–	–	–	–	10,362	10,362
Pay	–	112,241	–	74,240	–	186,481
Held-for-trading	–	505	498,991	–	–	499,496
AFS investments	–	6,074,130	1,748,128	3,633,527	49,730,419	61,186,204
Loans and receivable						
Receivables from customers	9,590,891	31,098,361	3,981,067	3,527,733	43,264,222	91,462,274
Unquoted debt securities	10,086	89,053	258,508	3,137,050	3,561,543	7,056,240
Accrued interest receivable	961,138	60,354	8,140	90,448	573,017	1,693,097
Sales contracts receivable	–	10,887	106,266	120,542	469,245	706,940
Accounts receivable	–	318,700	341,346	–	–	660,046
Other assets						
RCOCI	84,351	–	–	–	–	84,351
Bond sinking fund	–	–	–	–	50,000	50,000
Security deposits	–	–	–	37,734	–	37,734
Other investments	–	–	–	–	3,753	3,753
Total Financial Assets	₱41,540,979	₱43,027,982	₱6,942,446	₱10,621,274	₱97,662,561	₱199,795,242
Financial Liabilities						
Deposit liabilities						
Demand	₱45,151,949	₱–	₱–	₱–	₱–	₱45,151,949
Savings	30,063,260	34,634,810	4,068,001	9,632	580	68,776,283
Time	3,989	12,679,855	6,170,740	75,204	3,500,000	22,429,788
Derivative liabilities*						
Bifurcated	–	–	–	9,484	–	9,484
Pay	–	75,512	–	12,084	–	87,596
Bills payable	1,066,934	230,309	3,212,749	–	22,517	4,532,509
Marginal deposits	13,761	–	–	–	–	13,761

(Forward)

	Parent Company					
	December 31, 2011 (As restated - Notes 2 and 35)					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
Manager's checks and demand drafts outstanding	₱911,382	₱–	₱–	₱–	₱–	₱911,382
Accrued interest payable	257,937	–	–	–	–	257,937
Subordinated debt	–	80,213	240,638	320,850	4,500,000	5,141,701
Other liabilities						
Accounts payable	1,251,311	–	–	–	–	1,251,311
Due to other banks	937,801	–	–	–	–	937,801
Domestic bills purchased	897,807	–	–	–	–	897,807
Outstanding acceptances payable	–	148,294	85,613	–	–	233,907
Cash letters of credit	174,133	–	–	–	–	174,133
Due to PDIC	135,603	–	–	–	–	135,603
Payment orders payable	114,901	–	–	–	–	114,901
Due to Treasurer of the Philippines	2,957	–	–	–	–	2,957
Total Financial Liabilities	₱80,983,725	₱47,848,993	₱13,777,741	₱427,254	₱8,023,097	₱151,060,810

*Amounts are translated using spot rate as of December 31, 2011.

	Parent Company					
	January 1, 2011					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
Financial Assets						
Cash and other cash items	₱4,280,874	₱–	₱–	₱–	₱–	₱4,280,874
Due from BSP	13,892,789	–	–	–	–	13,892,789
Due from other banks	2,938,976	–	–	–	–	2,938,976
Interbank loans receivable and SPURA	12,100,000	1,704,440	666,479	–	–	14,470,919
Financial assets at FVPL						
Derivative assets*						
Bifurcated	–	–	–	11,848	10,362	22,210
Pay	–	109,269	–	127,467	–	236,736
Held-for-trading	–	2,007,215	69,108	310	2,086,063	4,162,696
AFS investments	–	9,198,761	97,739	–	13,388,033	22,684,533
HTM investments	–	8,797,944	629,200	2,880,790	11,568,959	23,876,893
Loans and receivable						
Receivables from customers	14,417,996	23,326,143	3,036,265	1,709,120	30,783,284	73,272,808
Unquoted debt securities	–	1,776	320,114	1,280	13,898,465	14,221,635
Accrued interest receivable	1,575,741	–	–	–	–	1,575,741
Accounts receivable	675,772	–	–	–	–	675,772
Sales contracts receivable	20,993	43,849	182,302	58,143	326,447	631,734
Other assets						
RCOCI	91,437	–	–	–	–	91,437
Bond sinking fund	–	–	–	–	50,000	50,000
Security deposits	–	–	–	44,778	–	44,778
Other investments	–	–	–	3,941	–	3,941
Total Financial Assets	₱49,994,578	₱45,189,397	₱5,001,207	₱4,837,677	₱72,111,613	₱177,134,472
Financial Liabilities						
Deposit liabilities						
Demand	₱41,798,506	₱–	₱–	₱–	₱–	₱41,798,506
Savings	66,533,653	–	–	–	–	66,533,653
Time	–	21,557,395	224,311	245,000	3,908,333	25,935,039
Derivative liabilities*						
Bifurcated	–	–	–	–	30,693	30,693
Pay	–	106,617	–	–	–	106,617
Bills payable	86,863	506,759	799,085	–	12,639	1,405,346
Marginal deposits	37,077	–	–	–	–	37,077
Manager's checks and demand drafts outstanding	409,386	–	–	–	–	409,386
Accrued interest payable	–	199,316	–	–	–	199,316
Subordinated debt	–	78,213	–	625,711	4,782,224	5,486,148

(Forward)

	Parent Company					
	January 1, 2011					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
Other liabilities						
Domestic bills purchased	₱1,064,758	₱–	₱–	₱–	₱–	₱1,064,758
Accounts payable	1,023,945	–	–	–	–	1,023,945
Outstanding acceptances payable	294,334	–	–	–	–	294,334
Cash letters of credit	208,990	–	–	–	–	208,990
Payment orders payable	132,636	–	–	–	–	132,636
Due to PDIC	132,208	–	–	–	–	132,208
Due to other banks	9,626	–	–	–	–	9,626
Due to Treasurer of the Philippines	2,744	–	–	–	–	2,744
Total Financial Liabilities	₱111,734,726	₱22,448,300	₱1,023,396	₱870,711	₱8,733,889	₱144,811,022

* Amounts are translated using spot rate as of January 1, 2011.

The table below shows the contractual maturity of the Group and Parent Company's contingent accounts and commitments as of December 31, 2012 and 2011 and January 1, 2011.

	Consolidated				
	December 31, 2012				
	On Demand	**Less than 3 months**	**3-12 months**	**Over 1 year**	**Total**
Commitments	**₱11,058,799**	**₱7,802**	**₱18,540**	**₱–**	**₱11,085,141**
Contingent accounts	**1,810,607**	**1,988,084**	**3,177,860**	**39,521**	**7,016,072**
	₱ 12,869,406	**₱1,995,886**	**₱3,196,400**	**₱39,521**	**₱18,101,213**

	Consolidated				
	December 31, 2011				
	On Demand	Less than 3 months	3-12 months	Over 1 year	Total
Commitments	₱22,003,278	₱65,920	₱1,096	₱–	₱22,070,294
Contingent accounts	3,019,969	1,776,141	2,063,717	64,856	6,924,683
	₱25,023,247	₱1,842,061	₱2,064,813	₱64,856	₱28,994,977

	Consolidated				
	January 1, 2011				
	On Demand	Less than 3 months	3-12 months	Over 1 year	Total
Commitments	₱17,271,555	₱227,164	₱20,431	₱–	₱17,519,150
Contingent accounts	3,655,347	2,063,006	1,271,564	45,448	7,035,365
	₱20,926,902	₱2,290,170	₱1,291,995	₱45,448	₱24,554,515

	Parent Company				
	December 31, 2012				
	On Demand	**Less than 3 months**	**3-12 months**	**Over 1 year**	**Total**
Commitments	**₱11,058,799**	**₱1,026**	**₱–**	**₱–**	**₱11,059,825**
Contingent accounts	**1,571,631**	**1,902,975**	**3,063,264**	**39,521**	**6,577,391**
	₱12,630,430	**₱1,904,001**	**₱3,063,264**	**₱39,521**	**₱17,637,216**

	Parent Company				
	December 31, 2011				
	On Demand	Less than 3 months	3-12 months	Over 1 year	Total
Commitments	₱22,003,278	₱46,162	₱1,096	₱–	₱22,050,536
Contingent accounts	2,713,255	1,739,476	1,688,756	64,856	6,206,343
	₱24,716,533	₱1,785,638	₱1,689,852	₱64,856	₱28,256,879

	Parent Company				
	January 1, 2011				
	On Demand	Less than 3 months	3-12 months	Over 1 year	Total
Commitments	₱17,271,555	₱62,266	₱691	₱–	₱17,334,512
Contingent accounts	3,221,063	1,866,495	1,575,631	45,450	6,708,639
	₱20,492,618	₱1,928,761	₱1,576,322	₱45,450	₱24,043,151

Management of Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. It arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting financial institution (FI) activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in FI products (options risk). The Group follows a set of policies in managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The Group uses the risk measurement techniques such as Earnings-at-Risk (EAR) and Scenario Analysis for interest rate risk management.

EAR refers to the risk exposure in the Group's accrual books arising from repricing gaps. Since the EAR measures the sensitivity of assets and liabilities to interest rate swings, EAR, a static snapshot of repricing gap position, effectively measures the potential adverse effects on net interest income using preset confidence levels. An EAR is constructed by classifying all rate-sensitive assets and liabilities according to their repricing dates or maturity, whichever is earlier. Repricing gap refers to the difference between rate sensitive assets and liabilities per repricing bucket/column.

All repriceable (rate-sensitive) accounts are affected by any rate changes, consequently, affecting the Group's net interest income. For example, if interest rates move against/in favor of the Group's positions, asset yields and liability costs will change. Whether the net interest income will increase or decrease depends on the size of the repricing gap. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

In addition, an EAR limit is set by the BOD to minimize the extent of volatility in the Group's net interest income. EAR limit is effectively the monetary amount of risk (or potential loss) deemed tolerable by top management for the accrual portfolios. An EAR limit system is designed to automatically decrease the size of open risk positions when increases in market volatility occur. EAR calculated from repricing rate gap positions is to be compared against EAR limits. An excess over the limit means that the open gap position, even within its nominal limit, has potential to cause more loss than management can accept, and must be trimmed down.

The Parent Company monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income and on equity. This is done by modeling the impact of various changes in interest rates to the Parent Company's interest-related income and expenses and on equity.

Key features of the internal interest rate risk management model are as follows: (a) 99.00% confidence level; (b) one month holding period; (c) EAR utilizes a twelve-month forecast period; (d) rate changes are proportional rather than absolute; (e) historical simulation approach utilizing instantaneous interest rate shocks; (f) static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing ; and (g) interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.

The following tables demonstrate the potential pre-tax impact of an immediate and sustained 100 basis point and 200 basis point increase or decrease in interest rates on net interest income and economic value of equity of the non-trading portfolio. These measures are based on business assumptions made by senior management and on historically-determined behavioral assumptions.

	Consolidated			
	Impact of Changes in Interest Rates on Pre-Tax Income			
	December 31, 2012			
	Increase (Decrease) in Basis Points			
	-200	**-100**	**+100**	**+200**
PHP	(₱212,420)	(₱152,906)	₱233,096	₱529,089
USD	513,515	273,988	(268,258)	(516,922)

	Consolidated			
	Impact of Changes in Interest Rates on Equity			
	December 31, 2012			
	Increase (Decrease) in Basis Points			
	-200	**-100**	**+100**	**+200**
PHP	₱2,232,934	₱1,046,932	(₱930,175)	(₱1,761,745)
USD	1,256,769	644,138	(539,501)	(1,059,906)
EUR	16,809	7,944	(6,269)	(11,319)
Others	322	322	(1,068)	(2,085)

	Consolidated			
	Impact of Changes in Interest Rates on Pre-Tax Income			
	December 31, 2011 (As restated - Notes 2 and 35)			
	Increase (Decrease) in Basis Points			
	-200	-100	+100	+200
PHP	₱236,821	₱117,411	(₱114,184)	(₱226,742)
USD	186,579	92,664	(89,044)	(177,139)

	Consolidated			
	Impact of Changes in Interest Rates on Equity			
	December 31, 2011 (As restated - Notes 2 and 35)			
	Increase (Decrease) in Basis Points			
	-200	-100	+100	+200
PHP	₱2,588,655	₱380,884	(₱343,523)	(₱654,812)
USD	1,720,571	386,201	(351,669)	(672,677)
EUR	149,065	2,492	(2,371)	(4,629)
Others	788	390	(383)	(759)

	Consolidated			
	Impact of Changes in Interest Rates on Pre-Tax Income			
	December 31, 2010			
	Increase (Decrease) in Basis Points			
	-100	-50	+50	+100
PHP	(₱80,865)	(₱45,818)	₱45,818	₱91,637
USD	(10,672)	(5,336)	5,377	10,755
GBP	(2,694)	(1,347)	1,347	2,694
EUR	(349)	(175)	175	349
Others	(1,581)	(791)	791	1,581

	Consolidated			
	Impact of Changes in Interest Rates on Equity			
	December 31, 2010			
	Increase (Decrease) in Basis Points			
	-100	-50	+50	+100
PHP	₱561,761	₱274,273	(₱261,888)	(₱485,422)
USD	652,845	317,913	(301,869)	(588,911)
EUR	3,097	1,526	(1,482)	(2,922)

	Parent Company			
	Impact of Changes in Interest Rates on Pre-Tax Income			
	December 31, 2012			
	Increase (Decrease) in Basis Points			
	-200	**-100**	**+100**	**+200**
PHP	(₱498,984)	(₱296,188)	₱372,980	₱808,857
USD	284,401	159,431	(157,404)	(295,213)

	Parent Company			
	Impact of Changes in Interest Rates on Equity			
	December 31, 2012			
	Increase (Decrease) in Basis Points			
	-200	**-100**	**+100**	**+200**
PHP	₱2,204,501	₱1,032,716	(₱916,053)	(₱1,733,501)
USD	1,254,536	643,022	(538,336)	(1,057,576)
EUR	16,809	7,944	(6,269)	(11,319)
Others	322	322	(1,068)	(2,085)

	Parent Company			
	Impact of Changes in Interest Rates on Pre-Tax Income			
	December 31, 2011 (As restated - Notes 2 and 35)			
	Increase (Decrease) in Basis Points			
	-200	-100	+100	+200
PHP	₱39,363	₱18,682	(₱16,851)	(₱32,074)
USD	22,483	10,616	(9,529)	(18,108)

	Parent Company			
	Impact of Changes in Interest Rates on Equity			
	December 31, 2011 (As restated - Notes 2 and 35)			
	Increase (Decrease) in Basis Points			
	-200	-100	+100	+200
PHP	₱2,577,821	₱375,470	(₱338,099)	(₱643,973)
USD	1,708,013	379,922	(345,311)	(659,960)
EUR	149,065	2,492	(2,371)	(4,629)
Others	788	390	(383)	(759)

	Parent Company			
	Impact of Changes in Interest Rates on Pre-Tax Income			
	December 31, 2010			
	Increase (Decrease) in Basis Points			
	-100	-50	+50	+100
PHP	(₱91,637)	(₱45,818)	₱45,818	₱91,637
USD	(21,686)	(10,843)	10,843	21,686
GBP	(2,694)	(1,347)	1,347	2,694
EUR	(349)	(175)	175	349
Others	(1,581)	(791)	791	1,581

	Parent Company			
	Impact of Changes in Interest Rates on Equity			
	December 31, 2010			
	Increase (Decrease) in Basis Points			
	-100	-50	+50	+100
PHP	₱545,451	₱266,120	(₱253,889)	(₱469,429)
USD	637,111	310,046	(294,061)	(573,295)
EUR	3,097	1,526	(1,482)	(2,922)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. It is inherent in the Group's books that it holds financial instruments of varied currencies. These exposures are monitored on a daily basis.

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Foreign currency-denominated liabilities generally consist of foreign currency deposits in the Group's FCDU 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 Group and foreign currency-denominated borrowings appearing in the RBU of the Group.

Foreign currency-denominated deposits are generally used to fund the Group'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 Group has additional foreign currency assets and liabilities in its foreign subsidiaries and branch network.

The Group 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 the Group is engaged with.

The Parent Company regularly monitors exposure to currency risks for the entire Group in accordance with the adopted Market Risk Management Manual. The Parent Company is conservative in its approach to managing exposure to foreign exchange risks. It minimizes such risks by complying with internal limits (VaR and FX Position Limits) and BSP Limit on the Ratio of the Net FX Position to Unimpaired Capital (BSP Circular 561 Series of 2007). Daily calculation of the VaR value is done in compliance with the requirements of the Basel II standards (99% confidence level, 260 working days monitoring period, and 1-day holding period) and is based on the parametric method. Back-testing is performed on a regular basis to verify the accuracy of the model. Stress scenarios, as indicated under Market Risk section, are applied to determine sensitivity of the group-wide foreign exchange position to adverse market fluctuations.

The following tables summarize the Group and the Parent Company's exposure to foreign exchange risk as of December 31, 2012 and 2011. Included in the table are the Group and the Parent Company's assets and liabilities at carrying amounts, categorized by currency (in USD):

	Consolidated		
	December 31, 2012		
	USD	**Others**	**Total**
Assets			
Cash and due from BSP	**USD84,407**	**USD10,302**	**USD94,709**
Due from other banks	**312,450**	**21,719**	**334,169**
Interbank loans receivable	**112,000**	**1,068**	**113,068**
Derivative assets	–	**1**	**1**
Financial assets at FVPL	**27,103**	–	**27,103**
AFS investments	**323,239**	**5,420**	**328,659**
Loans and receivables	**153,287**	**101,436**	**254,723**
Other assets	**4,743**	**12,599**	**17,342**
	1,017,229	**152,545**	**1,169,774**
Liabilities			
Deposit liabilities	**739,660**	**67,019**	**806,679**
Derivative liabilities	**5**	**11**	**16**
Bills payable	**58,506**	–	**58,506**
Accrued taxes, interest and other expenses	**1,863**	**1,038**	**2,901**
Other liabilities	**73,618**	**4,691**	**78,309**
	873,652	**72,759**	**946,411**
Net Exposure	**USD143,577**	**USD79,786**	**USD223,363**

	Consolidated		
	December 31, 2011 (As restated - Notes 2 and 35)		
	USD	Others	Total
Assets			
Cash and due from BSP	USD24,291	USD7,775	USD32,066
Due from other banks	251,006	44,392	295,398
Interbank loans receivable	40,122	1,134	41,256
Financial assets at FVPL	2,887	247	3,134
AFS investments	362,716	40,070	402,786
Loans and receivables	231,637	102,422	334,059
Other assets	24,983	13,562	38,545
	937,642	209,602	1,147,244
Foreign currency denominated assets included in disposal group classified as held-for-sale (Note 13)	169,427	–	169,427
	1,107,069	209,602	1,316,671
Liabilities			
Deposit liabilities	679,243	62,984	742,227
Derivative liabilities	–	5	5
Bills payable	12,031	17,900	29,931
Accrued taxes, interest and other expenses	1,312	1,187	2,499
Other liabilities	49,342	3,893	53,235
	741,928	85,969	827,897
Foreign currency denominated liabilities included in disposal group classified as held-for-sale (Note 13)	137,251	–	137,251
	879,179	85,969	965,148
Net Exposure	USD227,890	USD123,633	USD351,523

	Consolidated		
	January 1, 2011		
	USD	Others	Total
Assets			
Cash and due from BSP	USD23,846	USD6,748	USD30,594
Due from other banks	154,511	19,927	174,438
Interbank loans receivable	45,097	13,276	58,373
Financial assets at FVPL	43,396	2	43,398
AFS investments	208,998	4,245	213,243
HTM investments	187,307	37,227	224,534
Loans and receivables	217,580	85,779	303,359
Other assets	12,296	11,332	23,628
	893,031	178,536	1,071,567
Foreign currency denominated assets included in disposal group classified as held-for-sale (Note 13)	190,145	–	190,145
	1,083,176	178,536	1,261,712
Liabilities			
Deposit liabilities	636,243	56,459	692,702
Derivative liabilities	10	16	26
Bills payable	16,079	16,548	32,627
Accrued taxes, interest and other expenses	1,575	1,475	3,050
Other liabilities	38,881	1,126	40,007
	692,788	75,624	768,412
Foreign currency denominated liabilities included in disposal group classified as held-for-sale (Note 13)	158,882	–	158,882
	851,670	75,624	927,294
Net Exposure	USD231,506	USD102,912	USD334,418

	Parent Company		
	December 31, 2012		
	USD	**Others**	**Total**
Assets			
Cash and due from BSP	**USD15,694**	**USD1,292**	**USD16,986**
Due from other banks	**51,289**	**16,701**	**67,990**
Interbank loans receivable	**109,000**	**1,068**	**110,068**
Financial assets at FVPL	–	–	–
AFS investments	**257,138**	**2,781**	**259,919**
Equity investments	–	–	–
Loans and receivables	**114,149**	–	**114,149**
Other assets	**440**	–	**440**
	547,710	**21,842**	**569,552**
Liabilities			
Deposit liabilities	**486,044**	**7,725**	**493,769**
Bills payable	**58,506**	–	**58,506**
Accrued taxes, interest and other expenses	**469**	**1**	**470**
Other liabilities	**155**	**26**	**181**
	545,174	**7,752**	**552,926**
Net Exposure	**USD2,536**	**USD14,090**	**USD16,626**

	Parent Company		
	December 31, 2011 (As restated - Notes 2 and 35)		
	USD	Others	Total
Assets			
Cash and due from BSP	USD17,284	USD1,837	USD19,121
Due from other banks	60,986	11,823	72,809
Interbank loans receivable	39,819	1,134	40,953
Financial assets at FVPL	2,876	236	3,112
AFS investments	318,831	37,432	356,263
Equity investments	110,170	–	110,170
Loans and receivables	152,789	7,395	160,184
Other assets	23,740	1,538	25,278
	726,495	61,395	787,890
Liabilities			
Deposit liabilities	500,129	11,341	511,470
Bills payable	11,015	12,943	23,958
Accrued taxes, interest and other expenses	686	14	700
Other liabilities	11,972	2,821	14,793
	523,802	27,119	550,921
Net Exposure	USD202,693	USD34,276	USD236,969

	Parent Company		
	January 1, 2011		
	USD	Others	Total
Assets			
Cash and due from BSP	USD22,666	USD1,411	USD24,077
Due from other banks	16,158	11,985	28,143
Interbank loans receivable	44,698	4,218	48,916
Financial assets at FVPL	43,396	–	43,396
AFS investments	192,188	1,509	193,697
HTM investments	187,307	37,227	224,534
Equity investments	107,685	–	107,685
Loans and receivables	117,434	2,625	120,059
Other assets	11,951	–	11,951
	743,483	58,975	802,458
Liabilities			
Deposit liabilities	526,434	9,541	535,975
Bills payable	14,307	12,173	26,480
Accrued taxes, interest and other expenses	646	13	659
Other liabilities	16,440	1,056	17,496
	557,827	22,783	580,610
Net Exposure	USD185,656	USD36,192	USD221,848

The tables below indicate the currencies to which the Group and the Parent Company had substantial exposures as of December 31, 2012, 2011 and 2010 on its non-trading book. The result calculates the effect of a reasonably possible change in the spot rates on peso against foreign currencies with significant exposures, when all other variables are held constant. Negative values in the table reflect a potential reduction in income and equity while a positive amount reflects a potential increase (amounts in millions).

	Consolidated					
	December, 31, 2012					
Currency	**Change in spot rate**	**Effect on income before tax**	**Effect on equity**	**Change in spot rate**	**Effect on income before tax**	**Effect on equity**
USD	**0.78%**	**₱8.13**	**₱66.88**	**(0.78%)**	**(₱8.13)**	**(₱66.88)**
Japanese Yen (JPY)	**1.09**	**0.40**	**0.68**	**(1.09)**	**(0.40)**	**(0.68)**
GBP	**0.96**	**2.38**	**–**	**(0.96)**	**(2.38)**	**–**
Euro (EUR)	**1.24**	**1.84**	**0.74**	**(1.24)**	**(1.84)**	**(0.74)**

	Consolidated					
	December 31, 2011 (As restated - Notes 2 and 35)					
Currency	Change in spot rate	Effect on income before tax	Effect on equity	Change in spot rate	Effect on income before tax	Effect on equity
USD	0.88%	₱14.53	₱37.70	(0.88%)	(₱14.53)	(₱37.70)
JPY	1.28	0.81	–	(1.28)	(0.81)	–
GBP	1.25	1.26	–	(1.25)	(1.26)	–
EUR	1.75	1.25	0.20	(1.75)	(1.25)	(0.20)

	Consolidated					
	December 31, 2010					
Currency	Change in spot rate	Effect on income before tax	Effect on equity	Change in spot rate	Effect on income before tax	Effect on equity
USD	0.97%	₱85.68	₱68.76	(0.97%)	(₱85.68)	(₱68.76)
JPY	1.94	0.92	–	(1.94)	(0.92)	–
GBP	2.45	4.18	–	(2.45)	(4.18)	–
EUR	2.34	6.78	8.33	(2.34)	(6.78)	(8.33)

	Parent Company					
	December, 31, 2012					
Currency	**Change in spot rate**	**Effect on income before tax**	**Effect on equity**	**Change in spot rate**	**Effect on income before tax**	**Effect on equity**
USD	**0.78%**	**₱5.97**	**₱66.88**	**(0.78%)**	**(₱5.97)**	**(₱66.88)**
JPY	**1.09**	**0.40**	**0.68**	**(1.09)**	**(0.40)**	**(0.68)**
GBP	**0.96**	**2.38**	**–**	**(0.96)**	**(2.38)**	**–**
Euro (EUR)	**1.24**	**1.84**	**0.74**	**(1.24)**	**(1.84)**	**(0.74)**

	Parent Company					
	December 31, 2011 (As restated - Notes 2 and 35)					
Currency	Change in spot rate	Effect on income before tax	Effect on equity	Change in spot rate	Effect on income before tax	Effect on equity
USD	0.88%	₱14.05	₱37.70	(0.88%)	(₱14.05)	(₱37.70)
JPY	1.28	0.81	–	(1.28)	(0.81)	–
GBP	1.25	1.26	–	(1.25)	(1.26)	–
EUR	1.75	1.25	0.20	(1.75)	(1.25)	(0.20)

Currency	Parent Company December 31, 2010 Change in spot rate	Effect on income before tax	Effect on equity	Change in spot rate	Effect on income before tax	Effect on equity
USD	0.97%	₱85.59	₱68.76	(0.97%)	(₱85.59)	(₱68.76)
JPY	1.94	0.92	–	(1.94)	(0.92)	–
GBP	2.45	4.18	–	(2.45)	(4.18)	–
EUR	2.34	6.78	8.33	(2.34)	(6.78)	(8.33)

There is no other effect to equity other than the effect of a reasonably possible change in the spot rates on currencies to income after tax and cumulative translation adjustment.

Prepayment risk
Prepayment risk in the Parent Company is deemed to be relatively low. The Parent Company projects prepayment ratio by way of using historical data on loan prepayment rate. The Parent Company's loans prepayment rate is less than 1.41%, 1.09% and 1.03% of the total loan portfolio in 2012, 2011 and 2010, respectively. In view of this, management believes that 1.41% is not material enough to warrant a separate set of cash flow analyses. All calculations related to asset and liability management (e.g., as net interest margin analysis) take into account the contractual terms of the financial instrument.

Capital management and management of insurance and financial risks
Although life insurance companies are in the business of taking risks, PLII limits its risk exposure only to measurable and quantifiable risks. The main objective of PLII's risk management policies is to ensure that PLII remains financially viable and capable in paying its liabilities.

There are many risks associated in the life insurance business such as insurance risks, investment risks, asset depreciation and other business risks. These risks are managed separately to ensure that PLII is not exposed to risks that are unnecessary or risks with no commensurate expected benefits or returns.

Governance framework
PLII has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company and individual business unit levels. The chief financial officer (CFO) and Internal Audit Department performs procedures to identify various risks. The results of the procedures are reported to the BOD and necessary actions are taken to mitigate the risks identified.

The policies define PLII's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory framework
Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that PLII is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that PLII maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The operations of PLII are subject to the regulatory requirements of the Insurance Commission (IC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, fixed capitalization requirements, risk-based capital requirements).

Capital management
PLII manages its capital in accordance with the mandates of the IC being its regulator. Under the requirements of the IC and the Code, PLII should meet the minimum levels set for the following capital requirements: Margin of Solvency (MOS), Minimum Statutory Net Worth and Paid-up Capital, and the Risk-Based Capital (RBC). PLII regularly monitors its compliance with these capital requirements. Since PLII is now 100.00% Filipino-owned, the capital requirements have reduced significantly and PLII's current capital now well exceeds the minimum requirements.

Further, government bonds amounting to at least 25.00% of the Minimum Paid-up Capital are free from liens and encumbrances, and deposited under the IC, in accordance to Section 203 of the Code.

a) *MOS*
Under the Code, a life insurance company doing business in the Philippines shall maintain at all times a MOS equal to ₱0.50 million or ₱2.00 per thousand of the total amount of insurance in force as of the preceding calendar year in all policies (except term insurance), whichever is higher. The MOS shall be the excess of the value of its admitted assets as defined under the same Code, exclusive of the minimum paid-up capital, over the amount of its liabilities, unearned premiums, and reinsurance reserves. As of December 31, 2012 and 2011 PLII's MOS based on its calculations amounted to ₱341.36 million and ₱295.88 million, respectively.

The final amounts of the MOS can be determined only after the accounts of PLII have been examined by the IC specifically as to admitted and non-admitted assets as defined in the Code. The 2012, 2011 and 2010 MOS are known only after the IC completes its examination of the accounts of PLII.

Refer to Note 31 for the estimated amounts of non-admitted assets included in the statement of financial position.

If an insurance company fails to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

b) *Minimum statutory net worth and paid up capital*
Department of Finance issued Order 27-06 provides for the capitalization requirements for life, non-life and reinsurance companies. Under this order, the minimum statutory net worth and minimum paid-up capital requirements vary depending on the level of the foreign ownership in the insurance company. The statutory net worth shall include PLII's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC.

The required minimum statutory net worth and minimum paid-up capital for PLII in 2012, being a wholly-owned Filipino life insurance company is ₱500.00 million and ₱250.00 million, respectively, and ₱350.00 million and ₱175.00 million, respectively, in 2011. PLII has complied with the minimum statutory net worth and paid-up capital requirements based on PLII's own calculation.

c) *RBC requirement*
Insurance Memorandum Circular (IMC) No. 6-2006 provides for the risk-based capital framework for the life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every life insurance company is annually required to maintain a minimum RBC ratio of 100.00% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include PLII's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC. The RBC requirement is the ratio of the number of insurers which are able to meet the corresponding RBC Hurdle Rate requirement for a given year to the total number of insurers in the industry.

The following table shows how the RBC ratio was determined by PLII based on its calculations:

	2012	2011
Net worth	**₱591,359**	₱472,502
RBC requirement	**385,645**	306,947
RBC Ratio	**153.00%**	154.00%

The final amount of RBC ratio can be determined only after the accounts of PLII have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

d) *Consolidated compliance framework*
IMC 10-2006 integrated the compliance standards for the fixed capitalization and risk-based capital framework.

Subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2012 which shall be based on the 2011synopsis, the industry RBC Ratio Compliance Rate is 100.0% and the RBC Hurdle Rate is 250.00%. For the review year 2011which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90.00% and the RBC Hurdle Rate is 250.00%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

e) *Unimpaired capital requirement*
IMC 22-2008 provided for the purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statement of financial position should show that the net worth or stockholders' equity is at least equal to the actual paid-up capital.

PLII has complied with all of the above capital requirements in 2012 and 2011.

<u>Insurance Risk</u>
Nature of risk
The risk under any one insurance contract is the possibility that the insured event occurs. This event may be death, or in the case of some riders, disability, accidental injury, or contraction of critical illness. By the very nature of an insurance contract, this risk is random and unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing, the principal risk that PLII faces under its insurance contracts is that future claim on death, accident, disability, and critical illness claims exceed the future premiums plus the carrying amount of the insurance liabilities. This could occur if the frequency and magnitude of claims is greater than the assumption used in calculating PLII's liability. Occurrence of insured events is random and the actual number of claims will vary from year to year from the mortality assumptions made during product pricing. However, the law of large number is expected to be applicable as the pool of risk increases in volume and aggregate claims becomes more predictable.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller is the relative variability compared to the expected. Insurance risks generally vary by gender and age of the insured as these factors correlate greatly with the incidence rates of the insured events. Because of this, a more diverse demographic profile of insured lives may be more desirable since a more diverse risk profile reduces variability.

To minimize insurance risks, PLII strictly adheres to prudent underwriting standards in assessing insurance applications. These underwriting standards include a schedule of medical and non-medical requirements for specific range of ages and sum assured. Some policyholders are charged with additional premium in the form of flat or multiple extra premiums due to extra risks resulting from the applicant's occupation, health and lifestyle. Applications for insurance may be denied or postponed for certain substandard cases. To guard against anti-selection, insurance applications that do not establish insurable interest are rejected. Statements of assets and liabilities may also be required from the applicant to justify the sum assured applied for, and his ability to pay the premium.

Frequency of claims
For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected. In the Philippines, higher-than-expected claims also arise from typhoons, landslides, and other geologic events.

For contracts with Discretionary Participating Feature (DPF), a portion of the insurance risk is effectively shared with the policy owner, as policy dividends may be reduced due to adverse claims and investment experience.

For unit-linked insurance policies where the cost of insurance charges is not guaranteed, insurance risk is borne mostly by the policyholders. PLII has the right to alter these charges based on its mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

PLII manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are pooled into a sufficiently large portfolio. Medical selection is also included in the underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. PLII has a retention limit of ₱2.50 million on any standard risk. PLII reinsures the excess of the insured benefit over ₱2.50 million for standard risks (from a medical point of view) under an excess of loss reinsurance arrangement. PLII's risk retention is lower for medically impaired or substandard lives, which involves higher risks. PLII also has a Catastrophe Reinsurance agreement, which protects PLII in case of a catastrophic event resulting to multiple death claims.

The tables below present the concentration of individually insured benefits across different bands of insured ages as measured by the face amount (before reinsurance) and net amount at risk (NAAR), after reinsurance:

		December 31, 2012			
		Before reinsurance		**After reinsurance**	
Age bands (in years)	**Policy count**	**Face amount**	**Concentration (%)**	**NAAR**	**Concentration (%)**
0-15	**12,343**	**₱3,138,799**	**17.91**	**₱1,687,149**	**16.01**
16-25	**5,858**	**2,108,679**	**12.04**	**1,340,085**	**12.71**
26-35	**7,662**	**2,898,956**	**16.55**	**1,946,781**	**18.47**
36-45	**8,172**	**3,738,163**	**21.34**	**2,408,411**	**22.85**
46-55	**7,012**	**3,500,636**	**19.98**	**1,959,883**	**18.59**
56-65	**2,972**	**1,762,759**	**10.06**	**935,520**	**8.87**
66-75	**399**	**352,161**	**2.01**	**244,630**	**2.32**
76 and above	**7**	**19,000**	**0.11**	**18,983**	**0.18**
	44,425	**₱17,519,153**	**100.00**	**₱10,541,442**	**100.00**

		December 31, 2011			
		Before reinsurance		After reinsurance	
Age bands (in years)	Policy count	Face amount	Concentration (%)	NAAR	Concentration (%)
0-15	10,406	₱2,510,548	19.46	₱1,482,372	16.64
16-25	5,116	1,672,847	12.97	1,172,352	13.16
26-35	6,855	2,347,196	18.20	1,761,421	19.77
36-45	6,856	2,746,561	21.29	1,999,846	22.44
46-55	5,287	2,421,094	18.77	1,649,188	18.51
56-65	1,753	975,754	7.56	649,527	7.29
66-75	165	206,125	1.60	176,142	1.98
76 and above	9	19,150	0.15	19,030	0.21
	36,447	₱12,899,275	100.00	₱8,909,878	100.00

These tables include whole life, endowment, anticipated endowment, and term insurance contracts, thus the insured risk is a mixture of death and continued survival. NAAR is the net amount at risk, which is the difference between the face amount and the policy reserve. It is the net amount that would be payable upon death less liability released. The risk is spread over the younger through middle-aged bands.

Sources of uncertainty in the estimation of future benefit payments and premium receipts
Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurancecontracts arises from the unpredictability of long-term changes in overall levels of mortality and thevariability in policyholder behavior.

PLII uses appropriate tables of standard mortality for pricing and valuation of liabilities. An investigation into the actual mortality experience of PLII is carried out annually, but the experience is not yet considered statistically significant.

PLII maintains persistency statistics to monitor actual lapse experience against pricing assumptions and performance standards. Statutory reserves are calculated using mortality decrement only, without considering possibility of lapses. This results in a more conservative liability as gains on surrender are not anticipated in the valuation method.

5. Fair Values of Financial Assets and Liabilities

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

Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPURA - The carrying amounts approximate fair values, considering the relatively short-term maturities of these investments, including overnight deposits and placements with floating interest rates.

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

Equity securities - For publicly traded equity securities, fair values are based on quoted prices published in markets. For unquoted equity securities, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Derivatives instruments - Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models.

Loans and receivables - Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables. Where the loans and receivables reprice on a quarterly basis or has a relatively short-term maturity, the carrying amounts approximated fair values.

Other financial assets included in other assets - Quoted market prices are not readily available for these assets. They are not reported at fair value and are not significant in relation to the Group's total portfolio of securities.

Deposit liabilities - For demand, savings and short-term time deposits, carrying amounts approximate fair values largely due to short-term maturities and are currently due and demandable. For long-term time deposits, fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued, if any.

Bills payable and other liabilities - Fair values of short-term payables approximate their carrying amounts. Fair values of long-term payables are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Unsecured subordinated debt - Fair value was estimated using the discounted cash flow methodology, using the Parent Company's incremental borrowing rate.

Other financial liabilities included in other liabilities - Quoted market prices are not readily available for these liabilities. These liabilities are short-term in nature; hence, carrying amounts approximate fair values.

The carrying amounts of financial assets and financial liabilities approximate their fair values except for the following:

	Consolidated					
	December 31					
	2012		2011 (As restated - Notes 2 and 35)		January 1, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets						
HTM investments:						
Debt securities - government	**₱–**	**₱–**	₱–	₱–	₱13,541,105	₱14,048,927
Debt securities - private	**–**	**–**	–	–	7,402,186	8,047,083
Loans and receivables:						
Receivables from customers:						
Corporate	**63,657,355**	**63,714,373**	63,818,725	63,861,725	53,053,470	51,188,382
Small business	**16,668,847**	**16,634,655**	14,293,463	14,608,853	10,212,730	10,143,575
Consumer	**10,720,007**	**10,894,659**	9,801,271	9,813,015	8,362,374	7,838,217
Other receivables:						
Unquoted debt securities	**6,333,958**	**6,797,238**	6,242,344	7,070,649	6,677,136	6,571,598
Sales contract receivable	**429,070**	**428,887**	647,833	618,803	638,850	603,402
Accounts receivable	**747,580**	**747,580**	753,821	564,912	534,296	534,296
Finance lease receivables	**116,572**	**131,048**	99,182	125,762	93,500	115,594
Financial Liabilities						
Financial liabilities at amortized cost:						
Deposit liabilities:						
Time deposits	**27,678,795**	**28,127,403**	31,196,632	31,948,287	31,220,107	31,462,012
Subordinated debt	**4,497,306**	**4,497,306**	4,482,791	5,114,721	4,469,369	5,040,400

	Parent Company					
	December 31					
	2012		2011 (As restated - Notes 2 and 35)		January 1, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets						
HTM investments:						
Debt securities - government	**₱–**	**₱–**	₱–	₱–	₱13,501,104	₱13,450,631
Debt securities - private	**–**	**–**	–	–	6,219,101	6,272,961
Loans and receivables:						
Receivables from customers:						
Corporate	**61,039,275**	**61,150,540**	59,524,519	59,375,797	47,858,528	45,993,440
Small business	**13,257,658**	**13,222,067**	10,904,352	10,946,936	7,842,589	7,842,889
Consumer	**8,447,853**	**8,597,935**	8,033,518	8,217,222	6,581,286	6,057,129
Other receivables:						
Unquoted debt securities	**5,951,884**	**6,461,852**	5,953,224	6,664,462	6,257,541	6,796,459
Sales contract receivable	**417,174**	**418,268**	644,182	613,331	622,668	600,330
Financial Liabilities						
Financial liabilities at amortized cost:						
Deposit liabilities:						
Time deposits	**20,954,422**	**20,872,051**	22,352,006	22,664,754	24,956,492	24,956,492
Subordinated debt	**4,497,306**	**4,497,306**	4,482,791	5,114,721	4,469,369	5,040,400

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

- Quoted in market prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

As of December 31, 2012 and 2011 and January 1, 2011, the Group held the following financial instruments measured at fair value:

	Consolidated			
	December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial assets at FVPL:				
Derivative assets	**₱–**	**₱148,761**	**₱–**	**₱148,761**
Held-for-trading				
Debt securities:				
Government	**6,359,061**	**–**	**–**	**6,359,061**
Private	**821,320**	**–**	**–**	**821,320**
Equity securities	**46,384**	**–**	**–**	**46,384**
AFS investments:				
Debt securities:				
Government	**22,238,986**	**216,269**	**–**	**22,455,255**
Private	**5,264,092**	**1,076,816**	**–**	**6,340,908**
Equity securities - quoted	**905,366**	**–**	**–**	**905,366**
Financial Liabilities				
Derivative liabilities	**–**	**106,066**	**–**	**106,066**

	Consolidated			
	December 31, 2011 (As restated - Notes 2 and 35)			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Derivative assets	₱–	₱198,273	₱–	₱198,273
Held-for-trading				
Debt securities:				
Government	430,880	–	–	430,880
Private	18,352	–	–	18,352
Equity securities	50,264	–	–	50,264
AFS investments:				
Debt securities:				
Government	28,925,846	1,189,131	–	30,114,977
Private	9,589,765	–	–	9,589,765
Equity securities - quoted	615,847	–	–	615,847
Financial Liabilities				
Derivative liabilities	–	90,411	–	90,411

	Consolidated			
	January 1, 2011			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Derivative assets	₱–	₱259,016	₱–	₱259,016
Held-for-trading				
Debt securities:				
Government	2,826,028	–	–	2,826,028
Private	349,515	–	–	349,515
Equity securities	72,452	–	–	72,452
AFS investments:				
Debt securities:				
Government	15,412,229	–	–	15,412,229
Private	4,795,653	–	–	4,795,653
Equity securities - quoted	269,015	–	–	269,015
Financial Liabilities				
Derivative liabilities	–	138,395	–	138,395

	Parent Company			
	December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial assets at FVPL				
Derivative assets	**₱–**	**₱150,023**	**₱–**	**₱150,023**
Held-for-trading				
Debt securities:				
Government	**6,359,061**	–	–	**6,359,061**
Private	**821,320**	–	–	**821,320**
Equity securities	**46,384**	–	–	**46,384**
AFS investments				
Debt securities:				
Government	**18,912,501**	**216,269**	–	**19,128,770**
Private	**3,051,390**	**1,076,816**	–	**4,128,206**
Equity securities - quoted	**434,252**	–	–	**434,252**
Financial Liabilities				
Derivative liabilities	–	**106,755**	–	**106,755**

	Parent Company			
	December 31, 2011 (As restated - Notes 2 and 35)			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL				
Derivative assets	₱–	₱196,843	₱–	₱196,843
Held-for-trading				
Debt securities:				
Government	430,880	–	–	430,880
Private	18,352	–	–	18,352
Equity securities	50,264	–	–	50,264
AFS investments				
Debt securities:				
Government	25,786,181	1,189,131	–	26,975,312
Private	7,749,612	–	–	7,749,612
Equity securities - quoted	331,918	–	–	331,918
Financial Liabilities				
Derivative liabilities	–	97,080	–	97,080

	Parent Company			
	January 1, 2011			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL				
Derivative assets	₱–	₱258,946	₱–	₱258,946
Held-for-trading				
Debt securities:				
Government	2,826,028	–	–	2,826,028
Private	349,515	–	–	349,515
Equity securities	72,452	–	–	72,452
AFS investments				
Debt securities:				
Government	14,020,853	–	–	14,020,853
Private	3,422,619	–	–	3,422,619
Equity securities - quoted	142,588	–	–	142,588
Financial Liabilities				
Derivative liabilities	–	137,310	–	137,310

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the statement of financial position 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.

As of December 31, 2012, 2011 and 2010, the Group and the Parent Company do not have financial instruments reported within level 3 of the fair value hierarchy.

As of December 31, 2012, 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.

6. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	Consolidated		Parent Company	
	December 31			
	2012	2011	**2012**	2011
Interbank loans receivable	**₱7,813,042**	₱5,778,296	**₱5,053,986**	₱3,420,198
SPURA	**142,000**	6,800,000	**–**	6,700,000
	7,955,042	12,578,296	**5,053,986**	10,120,198
Interbank loans receivable included in the disposal group classified as held-for-sale (Note 13)	**–**	445,371	**–**	–
	₱7,955,042	₱13,023,667	**₱5,053,986**	₱10,120,198

As of December 31, 2012 and 2011, the outstanding balance of SPURA represents overnight placements with the BSP where the underlying securities cannot be sold or repledged.

The Group's foreign currency-denominated interbank loans receivable bear nominal interest rates ranging from 0.02% to 4.20%, from 0.08% to 4.95% and from 0.07% to 4.55 % for the years ended December 31, 2012, 2011 and 2010, respectively. The Group's peso-denominated interbank loans receivable bear nominal interest rates ranging from 0.10% to 4.50%, from 0.07% to 4.55% and from 0.10% to 4.75% for the years ended December 31, 2012, 2011 and 2010, respectively. The Group's SPURA bear nominal interest rates from 3.50% to 4.25%, from 4.00% to 4.50% and 4.00% to 4.06% for the years ended December 31, 2012, 2011 and 2010, respectively.

The Parent Company's foreign currency-denominated interbank loans receivable bear nominal interest rates ranging from 0.02% to 4.20%, from 0.08% to 4.95% and from 0.07% to 4.55% for the years ended December 31, 2012, 2011 and 2010, respectively. The Parent Company's peso-denominated interbank loans receivable bear nominal interest rates ranging from 3.63% to 4.50%, from 4.00% to 4.75% and from 4.00% to 4.25% for the years ended December 31, 2012, 2011 and 2010, respectively. The Parent Company's SPURA bear nominal interest rates from 3.50% to 4.25%, from 4.00% to 4.50% and from 4.00% to 4.06% for the years ended December 31, 2012, 2011 and 2010, respectively.

7. Trading and Investment Securities

This account consists of:

	Consolidated		
	December 31		
	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011
Financial assets at FVPL:			
Derivative assets	**₱148,761**	₱198,273	₱259,016
Held-for-trading	**7,226,765**	499,496	3,247,995
	7,375,526	697,769	3,507,011
AFS investments	**29,702,086**	40,331,832	20,500,595
HTM investments	**–**	–	20,943,291
	37,077,612	41,029,601	44,950,897
Trading and investment securities included in the disposal group classified as held-for-sale (Note 13)	**–**	253,131	442,302
	₱37,077,612	₱41,282,732	₱45,393,199

	Parent Company		
	December 31		
	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011
Financial assets at FVPL:			
Derivative assets	**₱150,023**	₱196,843	₱258,946
Held-for-trading	**7,226,765**	499,496	3,247,995
	7,376,788	696,339	3,506,941
AFS investments	**23,691,775**	35,068,085	17,609,758
HTM investments	**–**	–	19,720,205
	₱31,068,563	₱35,764,424	₱40,836,904

Derivative Financial Instruments
The table below shows the fair values of derivative financial instruments, 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, 2012 and 2011 and are not indicative of either market risk or credit risk. The embedded derivatives pertain to call and put options on debt securities classified as AFS investments.

The tables below shows the fair values of derivative financial instruments for the Group and the Parent Company:

	Consolidated			
December 31, 2012	**Notional Amount**	**Derivative Assets**	**Notional Amount**	**Derivative Liabilities**
Derivatives recorded at FVPL				
Forward exchange contracts				
USD	**USD135,131**	**₱66,503**	**USD325,231**	**₱47,323**
EUR	**EUR7,200**	**2,908**	**EUR11,181**	**1,667**
AUD	**AUD7,650**	**11**	**AUD500**	**276**
HKD	**HKD90,672**	**41**	**–**	**–**
Spots				
USD	**USD30,000**	**840**	**USD214,000**	**55,010**
Interest rate swap	**₱1,000,000**	**11,511**	**–**	**–**
Cross currency swap	**₱1,000,000**	**53,162**	**–**	**–**
Warrants	**44,890 units**	**9,703**	**–**	**–**
Embedded derivatives			**–**	**–**
USD	**USD22,500**	**4,082**	**USD2,000**	**652**
EUR	**–**	**–**	**EUR1,000**	**1,138**
		₱148,761		**₱106,066**

	Consolidated			
December 31, 2011	Notional Amount	Derivative Assets	Notional Amount	Derivative Liabilities
Derivatives recorded at FVPL				
Forward exchange contracts				
USD	USD340,513	₱84,161	USD278,918	₱60,617
EUR	EUR20,776	20,517	–	–
JPY	JPY198,000	5,923	JPY198,000	5,857
Singalore Dollar (SGD)	SGD107	71	SGD107	70
Spots				
USD	USD48,000	2,940	USD53,000	2,244
EUR	EUR500	59	EUR646	55
Interest rate swap	₱1,000,000	56,940	–	–
Cross currency swap	–	–	₱1,000,000	12,084
Warrants	44,890 units	10,362	–	–
Embedded derivatives				
USD	USD22,500	17,300	USD7,934	9,484
		₱198,273		₱90,411

	Parent Company			
December 31, 2012	**Notional Amount**	**Derivative Assets**	**Notional Amount**	**Derivative Liabilities**
Derivatives recorded at FVPL				
Forward exchange contracts				
USD	**USD135,131**	**₱67,835**	**USD216,770**	**₱48,446**
EUR	**EUR7,200**	**2,890**	**EUR954**	**1,233**
Australian Dollars (AUD)	**–**	**–**	**AUD500**	**276**
Spots				
USD	**USD30,000**	**840**	**USD214,000**	**55,010**
Interest rate swap	**₱1,000,000**	**11,511**	**–**	**–**
Cross currency swap	**₱1,000,000**	**53,162**	**–**	**–**
Warrants	**44,890 units**	**9,703**	**–**	**–**
Embedded derivatives				
USD	**USD22,500**	**4,082**	**USD2,000**	**652**
EUR	**–**	**–**	**EUR1,000**	**1,138**
		₱150,023		**₱106,755**

	Parent Company			
December 31, 2011	Notional Amount	Derivative Assets	Notional Amount	Derivative Liabilities
Derivatives recorded at FVPL				
Forward exchange contracts				
USD	USD337,913	₱83,715	USD278,918	₱60,396
EUR	EUR20,139	19,533	EUR2,146	6,890
JPY	JPY198,000	5,923	JPY198,000	5,857
SGD	SGD107	71	SGD107	70
Spots				
USD	USD48,000	2,940	USD53,000	2,244
EUR	EUR500	59	EUR646	55
Interest rate swap	₱1,000,000	56,940	–	–
Cross currency swap	–	–	₱1,000,000	12,084
Warrants	44,890 units	10,362	–	–
Embedded derivatives				
USD	USD22,500	17,300	USD7,934	9,484
		₱196,843		₱97,080

The table below shows the rollforward analysis of net derivative assets as of December 31, 2012 and 2011 and January 1, 2011:

	Consolidated			Parent Company		
	December 31		January 1,	December 31		January 1,
	2012	2011	2011	**2012**	2011	2011
Balance at beginning of year	**₱107,862**	₱120,621	₱131,370	**₱99,763**	₱121,636	₱127,222
Changes in fair value	**(431)**	(52,875)	104,446	**6,523**	(65,996)	89,969
Settlements	**(64,736)**	40,116	(115,195)	**(63,018)**	44,123	(95,555)
Balance at end of year	**₱42,695**	₱107,862	₱120,621	**₱43,268**	₱99,763	₱121,636

HFT Investments
This account consists of the following:

	December 31	
	2012	2011
Debt securities:		
Government	**₱6,359,061**	₱430,880
Private	**821,320**	18,352
Equity securities	**46,384**	50,264
	₱7,226,765	₱499,496

As of December 31, 2012, 2011 and January 1, 2011, held-for-trading investments have net unrealized gain of ₱82.65 million, ₱34.81 million and ₱11.22 million, respectively, for the Group and the Parent Company.

AFS Investments
This account consists of the following:

	Consolidated			Parent Company		
	December 31			December 31		
	2012	2011 (As restated - Notes 2 and 35)	January 1, 2011	**2012**	2011 (As restated - Notes 2 and 35)	January 1, 2011
Debt securities:						
Government	**₱22,455,255**	₱30,114,977	₱15,412,229	**₱19,128,770**	₱26,975,312	₱14,020,853
Private	**6,340,908**	9,589,765	4,795,653	**4,128,206**	7,749,612	3,422,619
	28,796,163	39,704,742	20,207,882	**23,256,976**	34,724,924	17,443,472
Equity securities:						
Quoted	**905,366**	615,847	269,015	**434,252**	331,918	142,588
Unquoted	**69,194**	76,067	88,522	**69,184**	76,067	88,522
	974,560	691,914	357,537	**503,436**	407,985	231,110
	29,770,723	40,396,656	20,565,419	**23,760,412**	35,132,909	17,674,582
Less allowance for credit losses - equity securities (Note 14)	**68,637**	64,824	64,824	**68,637**	64,824	64,824
	29,702,086	40,331,832	20,500,595	**23,691,775**	35,068,085	17,609,758
AFS investments included in the disposal group classified as held-for-sale (Note 13)	**–**	253,131	78,342	**–**	–	–
	₱29,702,086	₱40,584,963	₱20,578,937	**₱23,691,775**	₱35,068,085	₱17,609,758

Unquoted equity securities are carried at cost less allowance for impairment losses since its fair value cannot be reliably estimated. There is no market for these investments and the Group does not intend to dispose these securities since these represent investments in allied undertakings which are necessary in its banking operations.

The movements of net unrealized gains (losses) (NUGL) on AFS investments for the years ended December 31, 2012, 2011 and 2010 follow:

	Consolidated			Parent Company		
	2012	2011 (As restated - Notes 2 and 35)	2010	2012	2011 (As restated - Notes 2 and 35)	2010
Balance at beginning of year	**₱3,380,450**	₱778,675	(₱272,134)	**₱2,893,283**	₱592,797	(₱348,982)
Unrealized gains for the year recognized in OCI	**1,457,997**	3,248,905	2,014,407	**1,172,637**	2,950,969	1,905,500
Realized gains	**(2,486,548)**	(379,228)	(586,191)	**(2,418,924)**	(378,671)	(586,190)
	2,351,899	3,648,352	1,156,082	**1,646,996**	3,165,095	970,328
Remaining NUGL on reclassified AFS securities	**(49,384)**	(273,879)	(343,819)	**(49,384)**	(273,879)	(343,819)
Income tax effect	**(10,896)**	5,977	(33,588)	**(8,347)**	2,067	(33,712)
	₱2,291,619	₱3,380,450	₱778,675	**₱1,589,265**	₱2,893,283	₱592,797

Realized gains are included in 'Trading and investment securities gains - net' in the statement of income.

HTM Investments

This account consists of the following debt securities as of January 1, 2011:

	Consolidated	Parent Company
Government	₱13,541,105	₱13,501,104
Private	7,413,234	6,230,149
	20,954,339	19,731,253
Less allowance for credit losses - private debt securities (Note 14)	11,048	11,048
	20,943,291	19,720,205
HTM investments included in the disposal group classified as held-for-sale (Note 13)	363,960	–
	₱21,307,251	₱19,720,205

Foreign currency-denominated HTM investments of the Group and of the Parent Company bear EIR ranging from 0.85% to 13.63% in 2010. Peso-denominated HTM investments of the Group and of the Parent Company bear EIR ranging from 4.32% to 9.11% respectively, in 2010.

Interest income on trading and investment securities consists of:

	Consolidated			Parent Company		
	2012	2011 (As restated - Notes 2 and 35)	2010	2012	2011 (As restated - Notes 2 and 35)	2010
Financial assets at FVPL	**₱284,761**	₱209,688	₱240,920	**₱284,627**	₱209,651	₱240,920
AFS investments	**774,390**	1,689,152	1,072,172	**736,853**	1,456,658	1,031,217
HTM investments	**1,199,691**	829,688	1,718,962	**938,211**	756,359	1,718,963
	2,258,842	2,728,528	3,032,054	**1,959,691**	2,422,668	2,991,100
Interest income attributable to disposal group (Note 13)	**14,333**	31,957	13,041	**–**	–	–
	₱2,273,175	₱2,760,485	₱3,045,095	**₱1,959,691**	₱2,422,668	₱2,991,100

Trading and investment securities gains - net consist of:

	Consolidated			Parent Company		
	2012	2011 (As restated - Notes 2 and 35)	2010	2012	2011 (As restated - Notes 2 and 35)	2010
Financial assets at FVPL						
Derivative assets and liabilities	**(₱431)**	(₱52,875)	₱104,446	**₱6,523**	(₱65,996)	₱89,969
HFT Investments	**366,159**	188,902	211,763	**366,159**	188,902	211,763
AFS investments	**2,486,548**	379,228	586,191	**2,418,924**	378,671	586,190
HTM investments	**–**	22,371	–	**–**	19,393	–
	₱2,852,276	₱537,626	₱902,400	**₱2,791,606**	₱520,970	₱887,922

Reclassification of Financial Assets

The Parent Company reclassified financial assets held-for-trading and AFS investments to HTM investments effective July 1, 2008. The details of the reclassification follow:

Reclassification from financial assets HFT to HTM investments

The year 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 undertook a review of assets that were classified as HFT, in order to determine whether this classification remained appropriate. Where it was determined that the market for an asset was no longer active, and that the Parent Company no longer intended to trade, management reviewed the instrument to determine whether it was appropriate to reclassify such financial assets to HTM investments. This reclassification was performed where the Parent Company, at the reclassification date, had the clear intention and ability to hold the financial asset until maturity. As a result of the determination made by the Parent Company arising from a rare circumstance, certain financial assets HFT were reclassified to HTM investments.

The carrying value of financial assets HFT that were reclassified to HTM investments effective July 1, 2008, amounted to ₱916.13 million at the date of reclassification.

Financial assets HFT reclassified to HTM investments effective July 1, 2008 and subsequently reclassified to AFS investments in 2011 (see Note 35), have the following balances as of December 31, 2012 and 2011:

	As of December 31, 2012				
	Face Value	**Original Cost**	**Amortized Cost**	**Carrying / Fair Value**	**Amortization Discount/ (Premium)**
Government	**₱68,759**	**₱66,338**	**₱66,960**	**₱81,089**	**(₱622)**
Private	**41,050**	**38,297**	**39,741**	**44,744**	**(1,444)**
	₱109,809	**₱104,635**	**₱106,701**	**₱125,833**	**(₱2,066)**

	As of December 31, 2011				
	Face Value	Original Cost	Amortized Cost	Carrying / Fair Value	Amortization Discount/ (Premium)
Government	₱687,350	₱721,302	₱722,641	₱860,237	(₱1,339)
Private	65,760	61,481	63,080	69,806	(1,599)
	₱753,110	₱782,783	₱785,721	₱930,043	(₱2,938)

The HTM investments reclassified from financial assets held-for-trading, effective July 1, 2008, have the following balances as of January 1, 2011:

	Face Value	Original Cost	Carrying Value	Fair Value	Amortization Discount/ (Premium)
Government	₱691,199	₱724,895	₱725,845	₱865,661	(₱950)
Private	65,760	61,481	62,586	69,620	(1,105)
	₱756,959	₱786,376	₱788,431	₱935,281	(₱2,055)

As of July 1, 2008, market losses on held-for-trading investments reclassified to HTM investments amounted to ₱86.18 million. Had these investment securities not been reclassified to HTM investments, market gains of ₱20.19 million and ₱82.84 million would have been credited to the statements of income in 2012 and 2011, respectively. For 2010, market gains would have amounted to ₱84.32 million.

EIR on the reclassified financial assets HFT range from 6.41% to 10.06%. The Parent Company expects to recover 100.00% of the principal and interest in the amount of ₱0.14 billion and no additional impairment loss was recognized for the years ended December 31, 2012, 2011 and 2010 on the reclassified investment.

Reclassification from AFS investments to HTM investments
As a result of the change of intention, the Parent Company reclassified certain AFS investments to HTM investments. The Parent Company established that it has the positive intention and ability to hold these investments to maturity.

The carrying value of AFS investments reclassified to HTM investments amounted to ₱9.28 billion at the date of reclassification. These HTM investments were subsequently reclassified to AFS investments on July 19, 2011 due to bond exchange transaction (see Notes 2 and 35).

The HTM investments reclassified from AFS investments have the following balances as of January 1, 2011:

	Face Value	Original Cost	Carrying Value	Fair Value	Net Unrealized Loss	Amortization Discount
Government	₱1,625,063	₱1,524,916	₱1,556,070	₱1,744,149	₱140,470	₱78,511
Private	3,656,506	3,411,640	3,487,438	3,722,389	203,349	173,858
	₱5,281,569	₱4,936,556	₱5,043,508	₱5,466,538	₱343,819	₱252,369

As of July 1, 2008, market losses on AFS investments reclassified to HTM investments amounted to ₱634.84 million. Had these investment securities not been reclassified to HTM investments, market gain would have amounted to ₱92.34 million as of January 1, 2011. Among the reclassified securities, total face value amounting to USD100.64 million, equivalent to ₱4.15 billion matured or redeemed as of December 31, 2012.

EIR on the reclassified AFS investments range from 0.92% to 21.30%. The Parent Company expects to recover 100.00% of the principal and interest amounting to ₱1.54 billion and no impairment loss was recognized for the years ended December 31, 2012, 2011 and 2010.

The foregoing reclassifications and the single chosen dates of the rare circumstances in the case of financial assets held-for-trading and the date of change of intention for reclassification of AFS investments to HTM investments were approved by the Parent Company's Audit Committee on November 25, 2008. These reclassifications were compliant with the provision of BSP Circular No. 628 Guidelines on the Reclassification of Financial Assets between Categories.

Bond Exchange Transactions
On July 19, 2011, the Parent Company and its subsidiary, PNB Life Insurance, Inc., participated in the peso bond exchange program of the Philippine Government, wherein more than an insignificant amount of government securities classified under HTM, were exchanged for 20-year term bonds with minimum coupon rate of 8.00%. The Group accounted for the bond exchange under PFRS, which necessitated the reclassification of the HTM investments to AFS investments in accordance with PAS 39. The Group is prohibited to classify any financial assets as HTM investments in the year of the reclassification and two years thereafter. As of the date of reclassification on July 19, 2011, the amortized cost of HTM investments reclassified to AFS investments amounted to ₱20.52 billion and ₱18.60 billion for the Group and the Parent Company, respectively. Reclassified AFS investments are initially measured at its fair value amounting to ₱22.07 billion and ₱19.96 billion for the Group and the Parent Company, respectively. Any difference between the amortized cost of HTM investments and its fair value when reclassified is recognized in the statements of comprehensive income. The total gain on bond exchange amounting to ₱3.53 million and ₱0.27 million for the Group and the Parent Company, respectively, was recognized in the statements of income.

8. Loans and Receivables

This account consists of:

	Consolidated			Parent Company		
	December 31		January 1,	December 31		January 1,
	2012	2011	2011	2012	2011	2011
Receivables from customers:						
Corporate (Note 30)	**₱66,665,946**	₱66,402,742	₱55,424,460	**₱63,889,090**	₱61,921,051	₱50,091,559
Small business	**17,489,816**	14,689,559	10,640,686	**14,027,586**	11,205,202	8,196,811
Consumer	**11,313,790**	10,277,549	8,710,524	**9,014,653**	8,462,515	6,922,031
	95,469,552	91,369,850	74,775,670	**86,931,329**	81,588,768	65,210,401
Other receivables:						
Unquoted debt securities	**6,402,714**	6,406,484	6,715,597	**5,961,970**	5,963,310	6,267,627
Accrued interest receivable	**1,696,401**	1,850,135	1,710,052	**1,443,520**	1,693,097	1,575,741
Accounts receivable	**1,015,782**	773,643	735,631	**838,215**	660,046	675,772
Sales contract receivable	**429,130**	649,806	638,850	**417,174**	644,182	622,668
Finance lease receivables	**127,836**	105,152	93,500	**–**	–	–
Residual value	**52,483**	44,842	39,286	**–**	–	–
	9,724,346	9,830,062	9,932,916	**8,660,879**	8,960,635	9,141,808
	105,193,898	101,199,912	84,708,586	**95,592,208**	90,549,403	74,352,209
Unearned interest and discount	**(172,774)**	(251,070)	(238,763)	**(142,846)**	(228,130)	(196,719)
Capitalized interest	**(696)**	(3,605)	(3,328)	**(552)**	(3,001)	(2,724)
	105,020,428	100,945,237	84,466,495	**95,448,810**	90,318,272	74,152,766
Less allowance for credit losses (Note 14)	**4,883,491**	3,441,045	3,250,295	**4,593,962**	3,224,437	3,042,637
	100,136,937	97,504,192	81,216,200	**90,854,848**	87,093,835	71,110,129
Loans and receivables included in disposal group classified as held-for-sale (Note 13)	**–**	5,170,060	5,397,698	**–**	–	–
	₱100,136,937	₱102,674,252	₱86,613,898	**₱90,854,848**	₱87,093,835	₱71,110,129

Credit card receivables (CCR) included in "consumer" loans and receivables of the Group and Parent Company amounted to ₱3.86 billion, ₱2.94 billion and ₱1.83 billion as of December 31, 2012 and 2011 and January 1, 2011, respectively. Allowance for credit losses includes provision for CCR amounting to ₱332.95 million, ₱217.45 million and ₱132.74 million as of December 31, 2012 and 2011 and January 1, 2011, respectively.

An analysis of the Group's finance lease receivables as of December 31, 2012 and 2011 and January 1, 2011 is presented as follows:

	December 31		January 1,
	2012	2011	2011
Gross investment in finance lease receivables			
Due within one year	**₱21,776**	₱11,124	₱8,996
Due beyond one year but not over five years	**128,279**	114,638	106,648
	150,055	125,762	115,644
Residual value of leased equipment			
Due within one year	**14,692**	12,131	2,468
Due beyond one year but not over five years	**37,791**	32,711	36,818
	52,483	44,842	39,286
Less unearned lease income	**22,219**	20,610	22,144
Net investment in finance lease receivables	**₱180,319**	₱149,994	₱132,786

Loans amounting to ₱1.34 billion, ₱3.46 billion and ₱0.24 billion as of December 31, 2012 and 2011 and January 1, 2011, respectively, have been pledged to the BSP to collateralize the Parent Company's availments under BSP rediscounting privileges included in Bills payable (see Note 16). The pledged loans will be released when the underlying transaction is terminated, but in the event of the Parent Company's default, BSP is entitled to apply the collateral in order to settle the rediscounted bills.

Interest income accreted on impaired loans and receivables amounted to ₱105.04 million, ₱107.77 million and ₱145.80 million in 2012, 2011 and 2010, respectively.

Unquoted debt securities as of December 31, 2012 and 2011 and January 1, 2011 consist of:

	Consolidated			Parent Company		
	December 31		January 1,	December 31		January 1,
	2012	2011	2011	**2012**	2011	2011
Government debt securities	**₱6,392,628**	₱6,396,398	₱6,702,578	**₱5,951,884**	₱5,953,224	₱6,257,541
Private debt securities	**10,086**	10,086	13,019	**10,086**	10,086	10,086
	₱6,402,714	₱6,406,484	₱6,715,597	**₱5,961,970**	₱5,963,310	₱6,267,627

Unquoted government debt securities of the Group and the Parent Company consist mainly of agri-agra loans. The Group and the Parent Company plans to hold on these investments as part of its reserves for deposit liabilities and agri-agra loan requirement. As of December 31, 2012 and 2011 and January 1, 2011, allowance for credit losses on unquoted debt securities amounted to ₱66.84 million, ₱46.97 million and ₱38.46 million, respectively, for the Group, and ₱10.09 million for the Parent Company.

Of the total loans of the Group, 85.98%, 71.04% and 74.28% as of December 31, 2012 and 2011 and January 1, 2011, respectively, are subject to periodic interest repricing. Remaining loans earn annual fixed interest rates ranging from 1.65% to 25.00%, from 3.00% to 37.00% and from 3.50% to 8.20% in 2012, 2011 and 2010, respectively.

Of the total loans of the Parent Company, 85.94%, 79.56% and 82.18% as of December 31, 2012 and 2011 and January 1, 2011, respectively, are subject to periodic interest repricing. Remaining loans earn annual fixed interest rates ranging from 1.65% to 15.05%, from 3.00% to 12.00% and from 3.50% to 8.20%, in 2012, 2011 and 2010, respectively.

BSP Reporting

As of December 31, 2012 and 2011 and January 1, 2011, nonperforming loans (NPLs) follow:

	Consolidated			Parent Company		
	December 31		January 1,	December 31		January 1,
	2012	2011	2011	2011	2011	2011
Secured	**₱3,320,534**	₱3,317,122	₱3,686,746	**₱3,108,477**	₱3,047,690	₱3,346,654
Unsecured	**1,385,858**	1,320,093	887,620	**1,161,706**	1,204,923	867,481
	₱4,706,392	₱4,637,215	₱4,574,366	**₱4,270,183**	₱4,252,613	₱4,214,135

Current banking regulations allow banks with 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 loans shall not be accrued. As of December 31, 2012 and 2011 and January 1, 2011, NPLs not fully covered by allowance for credit losses follow:

	Consolidated			Parent Company		
	December 31		January 1,	December 31		January 1,
	2012	2011	2011	2012	2011	2011
Total NPLs	**₱4,706,392**	₱4,637,215	₱4,574,366	**₱4,270,183**	₱4,252,613	₱4,214,135
Less NPLs fully covered by allowance for credit losses	**786,136**	639,787	686,496	**704,640**	624,036	624,036
	₱3,920,256	₱3,997,428	₱3,887,870	**₱3,565,543**	₱3,628,577	₱3,590,099

NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This applies to loans and receivables that are payable in lump sum, quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof is considered nonperforming.

In the case of receivables that are payable in monthly installments, the total outstanding balance is considered nonperforming when three or more installments are in arrears.

In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof is 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 is considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total receivable balance.

Receivables are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables 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.

Restructured loans which do not meet the requirements to be treated as performing receivables are also considered as NPLs.

The following table shows the classification of restructured loans of the Parent Company as of December 31, 2012 and 2011 and January 1, 2011:

	December 31		January 1,
	2012	2011	2011
Corporate	**₱159,684**	₱186,706	₱192,397
Small business	**12,985**	46,208	67,418
Consumer	**12,594**	78,915	92,367
	₱185,263	₱311,829	₱352,182

The following tables show the breakdown of receivables from customers (gross of unearned interest and discounts and capitalized interest) as to collateral as of December 31, 2012 and 2011 and January 1, 2011:

	Consolidated					
	December 31					
	2012		2011		January, 1, 2011	
	Amount	%	Amount	%	Amount	%
Secured by:						
Real estate	**₱34,576,203**	**36.22**	₱30,559,875	33.45	₱27,408,060	36.65
Deposit hold-out	**2,023,297**	**2.12**	1,886,619	2.07	2,575,528	3.44
Chattel	**1,738,191**	**1.82**	2,762,051	3.02	2,396,486	3.20
Securities	**287,144**	**0.30**	1,543,813	1.69	1,723,345	2.30
Others*	**7,793,800**	**8.16**	6,471,027	7.08	13,069,151	17.50
	46,418,635	**48.62**	43,223,385	47.31	47,172,570	63.09
Unsecured	**49,050,917**	**51.38**	48,146,465	52.69	27,603,100	36.91
	₱95,469,552	**100.00**	₱91,369,850	100.00	₱74,775,670	100.00

	Parent Company					
	December 31					
	2012		2011		January, 1, 2011	
	Amount	%	Amount	%	Amount	%
Secured by:						
Real estate	**₱28,744,628**	**33.07**	₱24,021,501	29.44	₱20,936,419	32.11
Chattel	**1,677,721**	**1.93**	2,390,842	2.93	2,194,486	3.37
Deposit hold-out	**1,321,393**	**1.52**	1,565,043	1.92	2,340,222	3.59
Securities	**263,674**	**0.30**	1,399,365	1.71	1,723,345	2.64
Others*	**7,156,950**	**8.23**	5,480,743	6.72	11,266,622	17.27
	39,164,366	**45.05**	34,857,494	42.72	38,461,094	58.98
Unsecured	**47,766,963**	**54.95**	46,731,274	57.28	26,749,307	41.02
	₱86,931,329	**100.00**	₱81,588,768	100.00	₱65,210,401	100.00

* These include post dated checks and assigned receivables from third parties.

As of December 31, 2012 and 2011 and January 1, 2011, information on concentration of receivables from customers (gross of unearned interest and discounts and capitalized interest) as to economic activity follows:

	Consolidated					
	December 31					
	2012		2011		January 1, 2011	
	Amount	%	Amount	%	Amount	%
Wholesale and retail trade	₱22,392,803	23.46	₱19,033,974	20.83	₱15,900,751	21.26
Real estate, renting and business services	19,981,754	20.93	18,893,317	20.68	13,084,126	17.50
Manufacturing (various industries)	17,403,105	18.23	17,541,580	19.20	14,820,560	19.82
Transportation, storage and Communication	9,664,263	10.12	11,781,366	12.89	10,513,881	14.06
Other community, social and personal activities	9,988,796	10.46	7,885,178	8.63	6,468,050	8.65
Agriculture	795,855	0.83	1,071,887	1.17	6,732,198	9.00
Others*	15,242,976	15.97	15,162,548	16.60	7,256,104	9.71
	₱95,469,552	100.00	₱91,369,850	100.00	₱74,775,670	100.00

	Parent Company					
	December 31					
	2012		2011		January 1, 2011	
	Amount	%	Amount	%	Amount	%
Wholesale and retail trade	₱20,849,375	23.98	₱17,093,261	20.95	₱13,287,456	20.38
Real estate, renting and business services	16,269,594	18.72	15,544,172	19.05	10,331,501	15.84
Manufacturing (various industries)	15,670,591	18.03	14,972,445	18.35	12,709,662	19.49
Transportation, storage and Communication	9,467,819	10.89	11,597,804	14.21	9,812,597	15.05
Other community, social and personal activities	9,233,056	10.62	7,212,788	8.84	5,888,762	9.03
Agriculture	651,568	0.75	1,042,086	1.28	6,721,143	10.31
Others*	14,789,326	17.01	14,126,212	17.32	6,459,280	9.91
	₱86,931,329	100.00	₱81,588,768	100.00	₱65,210,401	100.00

* These include financial intermediation, mining and quarrying, services, miscellaneous business, personal, and social activities.

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2012	2011	2010	2012	2011	2010
Receivables from customers	₱5,978,248	₱5,546,921	₱4,939,898	₱5,505,391	₱5,069,032	₱4,582,081
Unquoted debt securities	503,654	514,953	565,501	483,222	494,521	565,501
	6,481,902	6,061,874	5,505,399	5,988,613	5,563,553	5,147,582
Interest income attributable to disposal group (Note 13)	203,047	265,661	315,744	–	–	–
	₱6,684,949	₱6,327,535	₱5,821,143	₱5,988,613	₱5,563,553	₱5,147,582

9. Investments in Subsidiaries

This account consists of the following investments of the Parent Company as of December 31, 2012 and 2011:

	2012	2011
Acquisition cost of (Note 2):		
ACB	**₱2,662,423**	₱2,662,423
PLII	**517,169**	517,169
ASB	**500,000**	500,000
ABUK	**226,181**	226,181
ABCHKL	**129,095**	129,095
ALFC	**87,250**	87,250
OHBVI	**20,500**	–
AFC	**–**	50,000
	4,142,618	4,172,118
Investment in subsidiary included in the disposal group classified as held-for-sale (Note 13)	**–**	20,500
	₱4,142,618	₱4,192,618

AFC
On February 24, 2003, the stockholders and BOD approved the suspension of AFC's operations effective March 1, 2003. On January 28, 2009, the BOD of AFC approved the cessation of the operations. Accordingly, AFC has changed its basis of accounting for periods subsequent to January 28, 2009, from the going concern basis to the liquidation basis. Accordingly, the carrying values of the remaining assets and all liabilities as of December 31, 2011 and 2010 are presented at estimated realizable values and at estimated settlement amounts.

On November 18, 2011, the Bureau of Internal Revenue issued a certification which states that the company has no outstanding internal revenue tax liability.

The SEC approved the amended articles of incorporation of AFC, shortening the term its existence, thereby dissolving AFC. Subsequently, AFC transferred its remaining assets and liabilities to ABC.

OHBVI
OHBVI is a bank holding company based in Road Town, British Virgin Islands. As of September 30, 2012, the Parent Company has a 27.78% interest in OHBVI, which in turn wholly-owns OBHI, a U.S. bank holding company which conducts its primary business through its wholly-owned subsidiary, Oceanic Bank. Oceanic Bank is chartered by the State of California and operates two branches in San Francisco, California, and one branch in Guam. Oceanic Bank offers full range of commercial banking services. OHBVI's revenue consists primarily of interest income from its loans and securities portfolio (see Note 13).

10. Property and Equipment

The composition of and movements in this account follow:

	Consolidated				
		At Cost			
	At Appraised Value - Land	**Buildings**	**Leasehold Improvements**	**Furniture, Fixtures and Equipment**	**Total - At Cost**
Cost/Appraised value					
Balance at January 1, 2012	**₱2,971,633**	**₱1,732,609**	**₱624,615**	**₱3,113,595**	**₱5,470,819**
Additions	**–**	**73,199**	**52,806**	**204,876**	**330,881**
Disposals	**–**	**–**	**–**	**(109,094)**	**(109,094)**
Reclassification/revaluation/others	**396,759**	**4,035**	**(5,364)**	**(36,625)**	**(37,954)**
Foreign exchange difference	**–**	**(15,721)**	**(10,607)**	**(4,072)**	**(30,400)**
Balance at December 31, 2012	**3,368,392**	**1,794,122**	**661,450**	**3,168,680**	**5,624,252**
Accumulated depreciation and amortization					
Balance at January 1, 2012	**–**	**836,688**	**494,483**	**2,571,306**	**3,902,477**
Depreciation and amortization	**–**	**66,629**	**56,343**	**246,432**	**369,404**
Disposals	**–**	**–**	**(9,656)**	**(98,837)**	**(108,493)**
Reclassification/others	**–**	**8,767**	**(2,510)**	**(21,594)**	**(15,337)**
Foreign exchange difference	**–**	**(3,793)**	**(878)**	**(3,576)**	**(8,247)**
Balance at December 31, 2012	**–**	**908,291**	**537,782**	**2,693,731**	**4,139,804**
Allowance for impairment losses (Note 14)	**–**	**36,644**	**–**	**–**	**36,644**
Net book value at December 31, 2012	**₱3,368,392**	**₱849,187**	**₱123,668**	**₱474,949**	**₱1,447,804**

	Consolidated				
		At Cost			
	At Appraised Value - Land	Buildings	Leasehold Improvements	Furniture, Fixtures and Equipment	Total - At Cost
Cost/Appraised value					
Balance at January 1, 2011	₱2,958,427	₱1,681,313	₱569,484	₱3,348,388	₱5,599,185
Additions	13,206	42,071	57,982	198,078	298,131
Disposals	–	–	(26,681)	(373,888)	(400,569)
Reclassification/revaluation/others	–	9,015	23,872	(58,939)	(26,052)
Foreign exchange difference	–	210	(42)	(44)	124
Balance at December 31, 2011	2,971,633	1,732,609	624,615	3,113,595	5,470,819
Accumulated depreciation and amortization					
Balance at January 1, 2011	–	772,046	438,349	2,683,303	3,893,698
Depreciation and amortization	–	61,327	58,081	285,373	404,781
Disposals	–	–	(26,682)	(361,870)	(388,552)
Reclassification/others	–	3,213	24,732	(35,523)	(7,578)
Foreign exchange difference	–	102	3	23	128
Balance at December 31, 2011	–	836,688	494,483	2,571,306	3,902,477
Allowance for impairment losses (Note 14)	–	1,272	–	–	1,272
	2,971,633	894,649	130,132	542,289	1,567,070
Property and equipment - net book value included in the disposal group classified as held-for-sale (Note 13)	–	–	125	620	745
Net book value at December 31, 2011	₱2,971,633	₱894,649	₱130,257	₱542,909	₱1,567,815

	Parent Company				
		At Cost			
	At Appraised Value - Land	**Buildings**	**Leasehold Improvements**	**Furniture, Fixtures and Equipment**	**Total - At Cost**
Cost/Appraised value					
Balance at January 1, 2012	₱2,941,962	₱1,450,711	₱509,285	₱2,776,856	₱4,736,852
Additions	–	73,199	47,930	183,220	304,349
Disposals	–	–	–	(97,628)	(97,628)
Reclassification/revaluation/others	396,759	4,035	(5,364)	(36,625)	(37,954)
Balance at December 31, 2012	3,338,721	1,527,945	551,851	2,825,823	4,905,619
Accumulated Depreciation and amortization					
Balance at January 1, 2012	–	762,135	424,962	2,303,131	3,490,228
Depreciation and amortization	–	60,353	42,588	221,563	324,504
Disposals	–	–	–	(88,074)	(88,074)
Reclassification/others	–	8,907	(2,503)	(21,528)	(15,124)
Balance at December 31, 2012		831,395	465,047	2,415,092	3,711,534
Allowance for impairment losses (Note 14)	–	32,741	–	–	32,741
Net book value at December 31, 2012	₱3,338,721	₱663,809	₱86,804	₱410,731	₱1,161,344

	Parent Company				
		At Cost			
	At Appraised Value - Land	Buildings	Leasehold Improvements	Furniture, Fixtures and Equipment	Total - At Cost
Cost/Appraised value					
Balance at January 1, 2011	₱2,941,962	₱1,400,528	₱466,759	₱3,025,933	₱4,893,220
Additions	–	41,168	45,917	174,568	261,653
Disposals	–	–	–	(364,706)	(364,706)
Reclassification/revaluation/others	–	9,015	(3,391)	(58,939)	(53,315)
Balance at December 31, 2011	2,941,962	1,450,711	509,285	2,776,856	4,736,852
Accumulated Depreciation and amortization					
Balance at January 1, 2011	–	703,972	384,258	2,432,024	3,520,254
Depreciation and amortization	–	54,950	43,235	259,294	357,479
Disposals	–	–	–	(352,664)	(352,664)
Reclassification/others	–	3,213	(2,531)	(35,523)	(34,841)
Balance at December 31, 2011	–	762,135	424,962	2,303,131	3,490,228
Allowance for impairment losses (Note 14)	–	287	–	–	287
Net book value at December 31, 2011	₱2,941,962	₱688,289	₱84,323	₱473,725	₱1,246,337

The details of depreciation and amortization recognized in the statements of income follow:

	Consolidated			**Parent Company**		
	2012	2011	2010	**2012**	2011	2010
Property and equipment:						
Buildings	**₱66,629**	₱61,327	₱54,509	**₱60,353**	₱54,950	₱53,605
Leasehold improvements	**56,343**	58,081	50,411	**42,588**	43,235	39,604
Furniture, fixtures and equipment	**246,432**	285,373	320,003	**221,563**	259,294	290,779
Investment properties (Note 11)	**27,825**	28,009	35,111	**24,470**	26,814	33,892
Other assets (Note 12)	**110**	30	15	**110**	30	15
	397,339	432,820	460,049	**349,084**	384,323	417,895
Depreciation and amortization attributable to disposal group held-for-sale (Note 13)	**9**	606	595	**–**	–	–
	₱397,348	₱433,426	₱460,644	**₱349,084**	₱384,323	₱417,895

As of December 31, 2012 and 2011, the cost of fully depreciated property and equipment still in use amounted to ₱2.54 billion and ₱2.22 billion, respectively, for the Group and ₱2.42 billion and ₱2.12 billion, respectively, for the Parent Company.

The Group measures land at revalued amount with changes in fair value being recognized in OCI. Fair value has been determined based on valuations made by internal or independent appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the land and taking into account the economic conditions prevailing at the time the valuations were made. As of December 31, 2012, had the land been carried at cost, the net book value would have been ₱886.35 million and ₱883.93 million, for the Group and the Parent Company, respectively. As of December 31, 2011, had the land been carried at cost, the net book value would have been ₱853.99 million and ₱851.57 million, for the Group and the Parent Company, respectively.

The Group's gain on sale of property and equipment recognized as 'Miscellaneous' included under 'Miscellaneous income' in the statements of income amounted to ₱0.71 million, ₱3.85 million and ₱8.52 million in 2012, 2011 and 2010, respectively (see Note 23).

The Parent Company's gain on sale of property and equipment recognized as 'Miscellaneous' included under 'Miscellaneous income' in the statements of income amounted to ₱0.71 million, ₱3.84 million and ₱8.52 million in 2012, 2011 and 2010, respectively (see Note 23).

11. Investment Properties

The composition of and movements in this account follow:

	Consolidated		
	Land	Buildings and Improvements	Total
Cost			
Balance at January 1, 2012	₱4,017,312	₱845,267	₱4,862,579
Additions	–	84,264	84,264
Transfers/disposals	(349,546)	(96,376)	(445,922)
Foreign currency difference	(650)	(49)	(699)
Balance at December 31, 2011	3,667,116	833,106	4,500,222
Accumulated depreciation and amortization			
Balance at January 1, 2011	–	210,365	210,365
Depreciation and amortization (Note 10)	–	27,825	27,825
Transfers/disposals	–	(30,836)	(30,836)
Foreign currency difference	–	(412)	(412)
Balance at December 31, 2012	–	206,942	206,942
Allowance for impairment losses (Note 14)	228,973	92,903	321,876
Net book value at December 31, 2012	₱3,438,143	₱533,261	₱3,971,404

	Consolidated		
	Land	Buildings and Improvements	Total
Cost			
Balance at January 1, 2011	₱4,090,380	₱1,092,145	₱5,182,525
Additions	192,927	21,435	214,362
Transfers/disposals	(266,580)	(268,371)	(534,951)
Foreign currency difference	585	58	643
Balance at December 31, 2011	4,017,312	845,267	4,862,579
Accumulated depreciation and amortization			
Balance at January 1, 2011	–	252,530	252,530
Depreciation and amortization (Note 10)	–	28,009	28,009
Transfers/disposals	–	(70,243)	(70,243)
Foreign currency difference	–	69	69
Balance at December 31, 2011	–	210,365	210,365
Allowance for impairment losses (Note 14)	232,063	102,292	334,355
Net book value at December 31, 2011	₱3,785,249	₱532,610	₱4,317,859

	Parent Company		
	Land	**Buildings and Improvements**	**Total**
Cost			
Balance at January 1, 2012	**₱3,734,520**	**₱809,624**	**₱4,544,144**
Additions	**39,351**	**91,581**	**130,932**
Transfers/disposals	**(284,134)**	**(96,374)**	**(380,508)**
Balance at December 31, 2012	**3,489,737**	**804,831**	**4,294,568**
Accumulated depreciation and Amortization			
Balance at January 1, 2012		**203,638**	**203,638**
Depreciation and amortization (Note 10)	–	**24,470**	**24,470**
Transfers/disposals	–	**(30,836)**	**(30,836)**
Foreign currency difference	–	**(407)**	**(407)**
Balance at December 31, 2012	–	**196,865**	**196,865**
Allowance for impairment losses (Note 14)	**225,771**	**91,810**	**317,581**
Net book value as at December 31, 2012	**₱3,263,966**	**₱516,156**	**₱3,780,122**

	Parent Company		
	Land	Buildings and Improvements	Total
Cost			
Balance at January 1, 2011	₱3,848,004	₱1,054,325	₱4,902,329
Additions	128,353	18,252	146,605
Transfers/disposals	(241,837)	(262,953)	(504,790)
Balance at December 31, 2011	3,734,520	809,624	4,544,144
Accumulated depreciation and Amortization			
Balance at January 1, 2011	–	245,392	245,392
Depreciation and amortization (Note 10)	–	26,814	26,814
Transfers/disposals	–	(68,637)	(68,637)
Foreign currency difference	–	69	69
Balance at December 31, 2011	–	203,638	203,638
Allowance for impairment losses (Note 14)	229,636	101,482	331,118
Net book value as at December 31, 2011	₱3,504,884	₱504,504	₱4,009,388

The Group's investment properties represent mainly real estate properties acquired in settlement of loans and receivables. The difference between the fair value of the asset upon foreclosure and the carrying value of the loan is recognized as 'Gain on acquisition of investment properties' in the statements of income.

Gain on acquisition of investment properties of the Group in 2012, 2011 and 2010 amounted to ₱27.16 million, ₱36.60 million and ₱30.53 million, respectively, of which ₱22.53 million, ₱28.79 million and ₱29.92 million, respectively, pertains to the Parent Company.

The Group's gain on sale of investment properties included under 'Miscellaneous income' in the statements of income amounted to ₱211.53 million, ₱112.12 million and ₱228.67 million in 2012, 2011 and 2010, respectively (see Note 23).

The Parent Company's gain on sale of investment properties included under 'Miscellaneous income' in the statements of income amounted to ₱203.23 million, ₱99.42 million and ₱222.06 million in 2012, 2011 and 2010, respectively (see Note 23).

The aggregate fair value of the Group's investment properties as of December 31, 2012 and 2011 amounted to ₱5.76 billion and ₱5.97 billion, respectively, of which ₱5.43 billion and ₱5.61 billion, respectively, pertains to the Parent Company. The fair values of the Group's investment properties have been determined by the appraisal method on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

Rental income on investment properties included in 'Miscellaneous income' in the statement of income of the Group in 2012, 2011 and 2010 amounted to ₱32.46 million, ₱33.53 million and ₱46.72 million, respectively, of which ₱25.71 million, ₱21.79 million and ₱46.63 million, respectively, pertains to the Parent Company (see Note 23).

Carrying values of investment properties for lease amounted to ₱2.66 billion and ₱1.56 billion as of December 31, 2012 and 2011, respectively, for the Group, of which ₱2.53 billion and ₱1.30 billion, as of December 31, 2012 and 2011, respectively, pertains to the Parent Company.

Direct operating expenses on investment properties included under 'Litigation/assets acquired' in 'Miscellaneous expenses' amounted to ₱29.35 million in 2012, ₱40.53 million in 2011 and ₱88.75 million in 2010 for the Group, and ₱28.11 million in 2012, ₱38.88 million in 2011 and ₱85.16 million in 2010 for the Parent Company (see Note 26).

As of December 31, 2012 and 2011, the carrying values of foreclosed investment properties still subject to redemption by the borrowers amounted to ₱17.19 million and ₱238.74 million, respectively, for the Group of which ₱17.19 million and ₱202.74 million, respectively, pertains to the Parent Company.

12. Other Assets

This account consists of:

	Consolidated		Parent Company	
	December 31		December 31	
	2012	2011	**2012**	2011
Investment in Heritage Park	**₱1,012,810**	₱1,034,118	**₱1,012,810**	₱1,034,118
Creditable withholding taxes	**261,798**	251,556	**260,448**	250,019
Retirement asset (Note 24)	**140,102**	184,404	**137,670**	182,018
Goodwill	**88,936**	88,936	**–**	–
Prepaid expenses	**67,429**	109,079	**58,430**	97,821
RCOCI	**62,688**	84,621	**62,527**	84,351
Unused stationery and supplies	**51,797**	52,168	**47,292**	45,311
Bond sinking fund (Note 22)	**50,000**	50,000	**50,000**	50,000
Intangible asset	**49,519**	–	**–**	–
Documentary stamps	**40,550**	41,689	**40,272**	41,501
Security deposits	**36,622**	47,726	**36,428**	37,734
Deferred charges	**16,512**	24,829	**16,512**	24,829
Other investments	**6,858**	3,771	**4,103**	3,753
Chattel mortgage properties	**1,924**	1,924	**1,924**	1,924
Interoffice float items	**–**	347	**–**	–
Miscellaneous	**152,081**	59,204	**100,688**	28,643
	2,039,626	2,034,372	**1,829,104**	1,882,022
Less:				
Accumulated depreciation	**1,601**	1,601	**1,601**	1,601
Allowance for impairment losses (Note 14)	**55,991**	56,544	**55,991**	56,544
	1,982,034	1,976,227	**1,771,512**	1,823,877
Other assets included in the disposal group classified as held-for-sale (Note 13)	**–**	50,321	**–**	–
	₱1,982,034	₱2,026,548	**₱1,771,512**	₱1,823,877

As of December 31, 2012 and 2011, miscellaneous assets of the Group also include security fund which is maintained by PLII amounting to ₱0.15 million, in compliance with Sections 365 and 367 of the Insurance Code. The amount of such fund is determined by and deposited with the IC for the payment of benefit claims against insolvent companies.

Investment in Heritage Park represents the Group's portfolio holdings in Heritage Park investment certificates. The fair value of such investment amounted to ₱1.05 billion and ₱1.03 billion as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, accumulated depreciation amounting to ₱1.60 million, pertains to chattel mortgage properties acquired by the Group and the Parent Company in settlement of loans.

13. Assets and Liabilities of Disposal Group Classified as Held-for-Sale

In 2010, the BOD of the Parent Company has approved the sale of 5,000 shares, representing 27.78% interest in OHBVI in view of the impending merger with PNB. OHBVI wholly owns OBHI that owns 100% of the common stock of Oceanic Bank in the U.S.

On October 11, 2011, the BOD of the Parent Company in its Special BOD Meeting, has approved the execution by OHBVI, of a Voting Trust Agreement (the "Agreement") which was signed among OHBVI, PNB (as successor to the Parent Company upon merger) and another party, as the nominated Trustee. This placed all shares of OBHI in a trust, to be sold to third parties, to facilitate the merger of the Parent Company and PNB.

On October 28, 2011, the U.S. Federal Reserve Board approved the Agreement to facilitate the merger of the Parent Company into PNB in a manner that addresses U.S. regulatory concerns.

PFRS 5 requires assets and liabilities of OBHI, together with the results of operations of a disposal group, to be classified separately from continuing operations. As a result, the Group reclassified all the assets and liabilities to 'Assets of disposal group classified as held-for-sale' and 'Liabilities of disposal group classified as held-for-sale', respectively, in the consolidated statements of financial position. The Parent Company reclassified its investments in subsidiary as 'Assets of held-for-sale' in the Parent Company statements of financial position.

On March 31, 2012, a stock purchase agreement was entered into with a First National Bank of Northern California (FNB Bancorp.) to sell OBHI, different from initial plan to sell OHBVI. On September 22, 2012, the Group completed the sale of OBHI to FNB Bancorp. for a gross consideration of ₱1.11 billion or USD27.75 million on account, resulted in a pre-tax loss of ₱290.24 million after transaction costs such as legal and consultation fees. The Group received the net consideration or proceeds from FNB Bancorp on October 4, 2012. After the completed sale, the Group ceased to classify assets and liabilities of OHBVI amounting to ₱1.10 billion and ₱2.30 million, respectively, as 'Assets of disposal group classified as held-for-sale' and 'Liabilities of disposal group classified as held-for-sale', and therefore, consolidated in the statement of financial position as of December 31, 2012.

The results of operation of OBHI, are presented below:

	For the period ended September 22, 2012	For the years ended December 31	
		2011 (As restated - Notes 2 and 35)	2010
INTEREST INCOME ON			
Loans and receivables	**₱203,047**	₱265,661	₱315,744
Trading and investment securities	**14,333**	31,957	13,041
Deposits with banks and interbank loans receivable	**9,019**	12,098	33,285
	226,399	309,716	362,070
INTEREST EXPENSE ON			
Deposit liabilities	**24,489**	61,903	59,439
Bills payable and other borrowings	**10,678**	12,098	35,366
	35,167	74,001	94,805

(Forward)

	For the period ended September 22, 2012	For the years ended December 31 2011 (As restated - Notes 2 and 35)	2010
NET INTEREST INCOME	**₱191,232**	₱235,715	₱267,265
Commissions and handling charges	**7,055**	16,346	7,837
Foreign exchange gains - net	**100**	5,081	5,573
Miscellaneous	**3,554**	4,036	3,973
TOTAL OPERATING INCOME	**201,941**	261,178	284,648
Compensation and fringe benefits	**57,356**	82,413	89,439
Occupancy and other equipment-related costs	**25,939**	33,461	37,417
Provision for credit and impairment losses	**2,360**	5,975	10,307
Taxes and licenses	**109**	5,684	9,015
Depreciation and amortization	**9**	606	595
Miscellaneous	**30,476**	42,984	83,149
TOTAL OPERATING EXPENSES	**116,249**	171,123	229,922
INCOME BEFORE INCOME TAX	**85,692**	90,055	54,726
LOSS FROM SALE OF DISPOSAL GROUP	**(290,242)**	–	–
INCOME (LOSS) BEFORE INCOME TAX FROM DISCONTINUED OPERATION	**(204,550)**	90,055	54,726
PROVISION FOR INCOME TAX	**33,543**	33,864	19,636
NET INCOME (LOSS) FROM DISCONTINUED OPERATION	**(₱238,093)**	₱56,191	₱35,090

The major classes of assets and liabilities classified as held-for-sale of the Group as of December 31, 2011 and January 1, 2011 are as follows:

	December 31, 2011(As restated - Notes 2 and 35)	January 1, 2011
Assets		
Cash and other cash items	₱35,368	₱981,709
Due from other banks	1,467,686	1,431,771
Interbank loans receivable	445,371	–
AFS investments	253,131	78,342
HTM investments	–	363,960
Loans and receivables - net	5,170,060	5,397,698
Property and equipment - net	745	1,096
Other assets	50,321	81,381
Assets of disposal group classified as held-for-sale	7,422,682	8,335,957
Liabilities		
Deposit liabilities	5,257,161	5,546,988
Bills payable	740,458	1,401,565
Accrued expenses	8,241	9,592
Other liabilities	11,224	7,242
Liabilities of disposal group directly associated with assets classified as held-for-sale	6,017,084	6,965,387
Net assets directly associated with disposal group	₱1,405,598	₱1,370,570
Reserve of disposal group classified as held-for-sale (cumulative translation adjustments)	₱97,569	₱97,371

	For the period ended September 22, 2012	For the years ended December 31 2011 (As restated - Notes 2 and 35)	2010
The net cash flows directly associated with disposal group:			
Operating	**₱234,138**	₱101,183	₱49,978
Investing	**(467,261)**	858,738	255,149
Financing	**(740,458)**	(967,812)	(64,839)
Net cash outflow	**(₱973,581)**	(₱7,891)	₱240,288

As of December 31, 2011 and January 1, 2011, loans and receivables is net of allowance for credit losses amounting to ₱80.93 million and ₱85.84 million, respectively. As of December 31, 2011 and January 1, 2011, due from other banks of OBHI considered as not cash and cash equivalents amounted to ₱974.61 million and ₱1.43 billion, respectively.

The following table shows the income (loss) and share data used in the basic and diluted earnings (loss) per share calculations:

	For the period ended September 22, 2012	For the years ended December 31 2011 (As restated - Notes 2 and 35)	2010
	(In thousands, except number of shares and EPS)		
a. Net income (loss) from discontinued operation attributable to common equity holders of the Parent Company	**(₱66,142)**	₱15,610	₱9,748
b. Weighted average no. of outstanding common shares	**3,252,495**	3,252,495	3,252,495
Add: Weighted average no. of potential common shares (pertaining to convertible preferred shares)	**7,248**	7,528	8,952
c. Weighted average no. of outstanding and potential common shares	**3,259,743**	3,260,023	3,261,447
Earnings (loss) per share:			
Basic (a/b)	**(₱20.34)**	₱4.80	₱3.00
Diluted (a/c)	**(₱20.34)**	₱4.79	₱2.99

For the period ended September 22, 2012, the basic and diluted earnings (loss) per share are equal since the assumed conversion of preferred shares as a result of dividing (a) over (c) is anti-dilutive.

The disposal group had outstanding financial commitments whose contractual amount represents the maximum credit risk exposure amounting to ₱734.10 million and ₱766.00 million as of December 31, 2011 and 2010, respectively.

As OBHI was sold prior to December 31, 2012, the assets and liabilities classified as part of the disposal group held for sale as of December 31, 2011 are no longer included in the consolidated financial statements and segment reporting (see Note 29).

14. Allowance for Credit and Impairment Losses

The movements in this account for the years ended December 31, 2012, 2011 and 2010 follow:

	Consolidated			Parent Company		
	2012	2011 (As restated - Notes 2 and 35)	2010	2012	2011 (As restated - Notes 2 and 35)	2010
Balance at beginning of year						
AFS investments						
Equity securities - quoted	**₱62,205**	₱62,205	₱62,205	**₱62,205**	₱62,205	₱62,205
Equity securities - unquoted	**2,619**	2,619	2,619	**2,619**	2,619	2,619
HTM investments - private	**–**	11,048	366,940	**–**	11,048	366,940
Loans and receivables	**3,441,045**	3,250,295	2,260,798	**3,224,437**	3,042,637	1,990,599
Property and equipment	**1,272**	4,352	4,352	**287**	4,352	4,352
Investment properties	**334,355**	393,591	465,292	**331,118**	390,355	461,749
Other assets	**56,544**	56,454	56,454	**56,544**	56,454	56,454
	3,898,040	3,780,564	3,218,660	**3,677,210**	3,569,670	2,944,918
Provisions charged to operations	**1,783,454**	362,334	1,252,727	**1,548,204**	350,778	1,211,263
Reversals/others	**(314,855)**	(244,858)	(690,823)	**(156,502)**	(243,238)	(586,511)
	1,468,599	117,476	561,904	**1,391,702**	107,540	624,752
Balance at end of year						
AFS investments (Note 7)						
Equity securities - quoted	**62,205**	62,205	62,205	**62,205**	62,205	62,205
Equity securities - unquoted	**6,432**	2,619	2,619	**6,432**	2,619	2,619
HTM investments - private (Note 7)	**–**	–	11,048	**–**	–	11,048
Loans and receivables (Note 8)	**4,883,491**	3,441,045	3,250,295	**4,593,962**	3,224,437	3,042,637
Property and equipment (Note 10)	**36,644**	1,272	4,352	**32,741**	287	4,352
Investment properties (Note 11)	**321,876**	334,355	393,591	**317,581**	331,118	390,355
Other assets (Note 12)	**55,991**	56,544	56,454	**55,991**	56,544	56,454
	5,366,639	3,898,040	3,780,564	**5,068,912**	3,677,210	3,569,670
Allowance included in the Disposal Group classified as Held-for-Sale (Note 13)	**–**	80,929	85,839	**–**	–	–
	₱5,366,639	₱3,978,969	₱3,866,403	**₱5,068,912**	₱3,677,210	₱3,569,670

Below is the breakdown of provision for credit and impairment losses:

	Consolidated			Parent Company		
	2012	2011 (As restated - Note 35)	2010	2012	2011 (As restated - Note 35)	2010
AFS investments						
Equity securities - unquoted	**₱3,813**	₱–	₱–	**₱3,813**	₱–	₱–
HTM investments - private	**–**	–	3,215	**–**	–	3,215
	3,813	–	3,215	**3,813**	–	3,215
Loans and receivables						
Receivables from customers	**1,673,241**	324,260	1,202,428	**1,473,801**	317,689	1,160,153
Other receivables	**58,146**	5,803	4,312	**22,336**	1,803	5,123
	1,731,387	330,063	1,206,740	**1,496,137**	319,492	1,165,276
Property and equipment	**32,197**	985	–	**32,197**	–	–
Investment properties	**16,057**	12,286	42,772	**16,057**	12,286	42,772
Other assets	**–**	19,000	–	**–**	19,000	–
	1,783,454	362,334	1,252,727	**1,548,204**	350,778	1,211,263
Provision for credit losses attributed to disposal group classified as held-for-sale (Note 13)	**2,360**	5,975	10,307	**–**	–	–
	₱1,785,814	₱368,309	₱1,263,034	**₱1,548,204**	₱350,778	₱1,211,263

A reconciliation of the allowance for credit losses for loans and receivables by class as of December 31, 2012 and 2011 follows:

	Consolidated					
	December 31, 2012					
	Corporate	Small Business	Consumer	Other Receivables	Allowance included in Disposal Group	Total
Balance at beginning of year	₱2,400,383	₱355,472	₱447,856	₱237,334	₱80,929	₱3,521,974
Provisions during the year	1,186,110	218,255	268,876	58,146	–	1,731,387
Transfers/disposals	(637,275)	198,726	(188,530)	338,138	(80,929)	(369,870)
Balance at end of year	₱2,949,218	₱772,453	₱528,202	₱633,618	–	₱4,883,491
Individual impairment	₱2,043,693	₱348,261	₱91,072	₱355,952	–	₱2,838,978
Collective impairment	905,525	424,192	437,130	277,666	–	2,044,513
	₱2,949,218	₱772,453	₱528,202	₱633,618	–	₱4,883,491
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment losses	₱3,448,928	₱488,645	₱257,525	₱626,779	–	₱4,821,877

	Consolidated					
	December 31, 2011					
	Corporate	Small Business	Consumer	Other Receivables	Allowance included in Disposal Group	Total
Balance at beginning of year	₱2,292,849	₱386,789	₱328,023	₱242,634	₱85,839	₱3,336,134
Provisions during the year	249,298	38,928	36,034	5,803	5,975	336,038
Transfers/disposals	(141,764)	(70,245)	83,799	(11,103)	(10,885)	(150,198)
Balance at end of year	₱2,400,383	₱355,472	₱447,856	₱237,334	₱80,929	₱3,521,974
Individual impairment	₱2,070,466	₱283,622	₱190,999	₱156,573	₱7,277	₱2,708,937
Collective impairment	329,917	71,850	256,857	80,761	73,652	813,037
	₱2,400,383	₱355,472	₱447,856	₱237,334	₱80,929	₱3,521,974
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment losses	₱3,451,553	₱431,703	₱498,456	₱267,427	₱206,399	₱4,855,538

	Parent Company				
	December 31, 2012				
	Corporate	Small Business	Consumer	Other Receivables	Total
Balance at beginning of year	₱2,323,278	₱276,774	₱405,572	₱218,813	₱3,224,437
Provisions during the year	987,913	217,051	268,837	22,336	1,496,137
Transfers/disposals	(503,281)	238,343	(171,342)	309,668	(126,612)
Balance at end of year	₱2,807,910	₱732,168	₱503,067	₱550,817	₱4,593,962
Individual impairment	₱1,997,113	₱336,440	₱81,429	₱282,459	₱2,697,441
Collective impairment	810,797	395,728	421,638	268,358	1,896,521
	₱2,807,910	₱732,168	₱503,067	₱550,817	₱4,593,962
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance losses	₱3,192,170	₱442,109	₱218,745	₱534,760	₱4,387,784

	Parent Company				
	December 31, 2011				
	Corporate	Small Business	Consumer	Other Receivables	Total
Balance at beginning of year	₱2,179,085	₱332,512	₱319,615	₱211,425	₱3,042,637
Provisions during the year	243,050	38,058	36,581	1,803	319,492
Transfers/disposals	(98,857)	(93,796)	49,376	5,585	(137,692)
Balance at end of year	₱2,323,278	₱276,774	₱405,572	₱218,813	₱3,224,437
Individual impairment	₱2,100,366	₱275,757	₱187,964	₱10,086	₱2,574,173
Collective impairment	222,912	1,017	217,608	208,727	650,264
	₱2,323,278	₱276,774	₱405,572	₱218,813	₱3,224,437
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance losses	₱3,185,593	₱416,496	₱483,686	₱10,088	₱4,095,863

The following is a reconciliation of the individual and collective allowance for credit losses for loans and receivables as of December 31, 2012 and 2011:

	December 31, 2012						
	Consolidated				**Parent Company**		
	Individual Impairment	**Collective Impairment**	**Allowance included in Disposal Group**	**Total**	**Individual Impairment**	**Collective Impairment**	**Total**
Balance at beginning of year	**₱2,701,660**	**₱739,385**	**₱80,929**	**₱3,521,974**	**₱2,574,173**	**₱650,264**	**₱3,224,437**
Provisions during the year	**931,749**	**799,638**	**–**	**1,731,387**	**878,968**	**617,169**	**1,496,137**
Transfers/disposals	**(794,431)**	**505,490**	**(80,929)**	**(369,870)**	**(755,700)**	**629,088**	**(126,612)**
Balance at end of year	**₱2,838,978**	**₱2,044,513**	**₱–**	**₱4,883,491**	**₱2,697,441**	**₱1,896,521**	**₱4,593,962**

	December 31, 2011						
	Consolidated				Parent Company		
	Individual Impairment	Collective Impairment	Allowance included in Disposal Group	Total	Individual Impairment	Collective Impairment	Total
Balance at beginning of year	₱2,543,791	₱706,504	₱85,839	₱3,336,134	₱2,496,042	₱546,595	₱3,042,637
Provisions during the year	295,183	34,880	5,975	336,038	280,983	38,509	319,492
Transfers/disposals	(137,314)	(1,999)	(10,885)	(150,198)	(202,852)	65,160	(137,692)
Balance at end of year	₱2,701,660	₱739,385	₱80,929	₱3,521,974	₱2,574,173	₱650,264	₱3,224,437

15. 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%. On the other hand, non-FCDU deposit liabilities of ASB are subject to liquidity and statutory reserves equivalent to 2.00% and 6.00%, respectively.

On March 29, 2012, the BSP issued Circular No. 753 mandating the unification of the statutory/legal and liquidity reserves requirement on deposit liabilities and deposit substitutes. As such, effective the reserve week starting April 6, 2012, non-FCDU deposit liabilities of the Parent Company are subject to required reserves equivalent to 18.0%. On the other hand, non-FCDU deposit liabilities of ASB are subject to required reserves equivalent to 6.0%. In compliance with this Circular, government securities which are used as compliance with the regular and/or liquidity reserve requirements shall continue to be eligible until they mature and cash in vault shall no longer be included as reserve. The required reserves shall be kept in the form of deposits maintained in the Demand Deposit Accounts with the BSP. Further, deposits maintained with the BSP in compliance with the reserve requirement shall no longer be paid interest.

The Parent Company and ASB were in compliance with such regulations as of December 31, 2012 and 2011.

The total liquidity and statutory reserves maintained by the Group and the Parent Company in the weeks towards the years ended December 31, 2012 and 2011 as reported to BSP follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Cash and other cash items	**₱–**	₱4,017,506	**₱–**	₱3,638,964
Due from BSP	**17,482,567**	18,225,057	**17,292,657**	18,174,461
AFS investments	**–**	53,961	**–**	–
	₱17,482,567	₱22,296,524	**₱17,292,657**	₱21,813,425

Of the total interest-bearing deposit liabilities of the Group as of December 31, 2012, 2011 and 2010, 42.50%, 40.41% and 42.15%, respectively, are subject to periodic interest repricing. Remaining foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.001% to 4.50%, from 0.001% to 4.50% and from 0.001% to 4.50% for the year ended December 31, 2012, 2011 and 2010, respectively, while remaining peso-denominated deposit liabilities earn annual fixed interest rates rangingfrom 0.65% to 3.625%, from 0.65% to 4.625% and from 1.00% to 4.625% for the years ended December 31, 2012, 2011 and 2010, respectively.

Of the total interest-bearing deposit liabilities of the Parent Company as of December 31, 2012, 2011 and 2010, 40.68%, 42.15% and 45.26%, respectively, are subject to periodic interest repricing. Remaining foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.02% to 1.25%, from 0.1875% to 1.75% and from 0.1875% to 1.75% for the years ended December 31, 2012, 2011 and 2010, respectively, while remaining peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 3.625%, from 0.50% to 4.625% and from 0.50% to 4.625% for the years ended December 31, 2012, 2011 and 2010, respectively.

On October 22, 2009, the Parent Company issued ₱3.50 billion Long-Term Negotiable Certificate of Time Deposit (LTNCTD) with an interest rate of 7.00% per annum which shall be payable quarterly, commencing on January 23, 2010 and is included under time deposit. The LTNCTD is insured with PDIC and will mature on October 23, 2014.

Interest expense on deposit liabilities follow:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Savings Deposits	**₱1,129,964**	₱1,476,330	₱1,475,293	**₱1,095,616**	₱1,442,907	₱1,496,868
Time Deposits	**428,703**	472,573	573,852	**356,762**	447,309	490,399
Demand Deposits	**133,999**	215,304	165,221	**129,884**	204,086	168,654
LTNCTD	**251,771**	250,701	251,689	**251,771**	250,701	251,689
	1,944,437	2,414,908	2,466,055	**1,834,033**	2,345,003	2,407,610
Interest on deposits attributable to the disposal group (Note 13)	**24,489**	61,903	59,439	**–**	–	–
	₱1,968,926	₱2,476,811	₱2,525,494	**₱1,834,033**	₱2,345,003	₱2,407,610

16. **Bills Payable**

This account consists of borrowings from:

	Consolidated		Parent Company	
	December 31		December 31	
	2012	2011	**2012**	2011
BSP	**₱1,339,117**	₱3,463,844	**₱1,339,117**	₱3,463,844
Foreign banks	**1,865,750**	759,315	**1,865,750**	1,052,563
Others	**1,857,837**	54,776	**1,797,837**	14,776
	5,062,704	4,277,935	**5,002,704**	4,531,183
Bills payable included in the disposal group classified as held-for-sale (Note 13)	**–**	740,458	**–**	–
	₱5,062,704	₱5,018,393	**₱5,002,704**	₱4,531,183

Bills payable - BSP mainly represents term borrowings availed through normal open market transactions with the BSP. These are collateralized by eligible loans (see Note 8) and bear annual interest rates ranging from 3.50% to 4.50% in 2012, from 4.00% to 4.50% in 2011 and from 3.50% to 4.00% in 2010.

Bills payable - foreign banks are short-term foreign currency borrowings bearing annual interest rates ranging from 0.35% to 1.16% in 2012, from 0.40% to 2.76% in 2011 and from 0.25% to 2.19% in 2010. Bills payable included in the disposal group classified as held-for sale represents borrowings of OHBVI from Federal Home Loan Bank (FHLB) amounting to ₱0.74 billion (US$16.89 million) as of December 31, 2011, which bears average interest rates of 1.78% and 1.93% in 2011. As of December 31, 2011, borrowing from FHLB amounting to ₱629.98 million (USD14.37 million) is due within one year while ₱110.48 million (USD2.52 million) is due beyond one year.

Bills payable - others mainly represent funding from Government Service Insurance System whereby the Parent Company acts as conduit for certain financing programs of these institutions. These bear annual interest rates ranging from 6.00% to 16.00% in 2012 and from 9.00% to 16.00% in 2011 and 2010.

Interest expense on bills payable and other borrowings follow:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Subordinated debt (Note 18)	**₱337,241**	₱332,989	₱330,198	**₱337,241**	₱332,989	₱330,198
Bills payable	**149,497**	72,424	37,587	**145,927**	65,920	42,507
Other borrowings (Note 20)	**18,779**	9,324	7,234	**2,254**	886	1,148
	505,517	414,737	375,019	**485,422**	399,795	373,853
Interest on bills payable and other borrowings attributable to the disposal group (Note 13)	**10,678**	12,098	35,366	**–**	–	–
	₱516,195	₱426,835	₱410,385	**₱485,422**	₱399,795	₱373,853

17. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	December 31		December 31	
	2012	2011	**2012**	2011
Accumulated leave absences	**₱455,954**	₱492,086	**₱455,954**	₱492,086
Accrued interest payable	**217,464**	267,406	**175,335**	257,937
Accrued legal and litigation expenses	**210,760**	49,537	**210,760**	49,537
Accrued compensation and fringe benefits	**60,181**	47,917	**60,181**	42,208
Accrued other taxes and licenses	**33,584**	48,394	**33,417**	45,895
Accrued director's dues and committee fees	**10,094**	12,059	**10,094**	12,021
Accrued other expenses payable	**359,692**	250,986	**225,017**	152,684
	1,347,729	1,168,385	**1,170,758**	1,052,368
Accrued expenses included in the disposal group classified as held-for-sale (Note 13)	**–**	8,241	**–**	–
	₱1,347,729	₱1,176,626	**₱1,170,758**	₱1,052,368

As of December 31, 2012 and 2011, the Parent Company has no plan assets for the accumulated leave absences.

Accrued other expenses payable includes accruals for rent, medical, dental and hospitalization fees, repairs and maintenance, representation, traveling and other expenses.

18. Subordinated Debt

Lower Tier 2

On July 25, 2007, the BOD of the Parent Company approved and authorized the management to conduct capital raising activity by way of issuance of Lower Tier 2 capital up to the maximum amount of ₱5.00 billion through a public offering subject to the provisions of BSP Circular No. 280 and BSP Memorandum to all banks and financial institutions dated February 17, 2003.

The issuance of the foregoing subordinated debt was approved by the Monetary Board (MB) in its Resolution No. 98 dated January 24, 2008.

Relative to this, on March 6, 2008, the Parent Company issued ₱4.50 billion, 7.13% Subordinated Notes due on 2018, callable with step-up in 2013. Among the significant terms and conditions of the issuance of the subordinated notes are:

a) Issue price is at 100.00% of the Principal amount.

b) The Subordinated Notes bear interest at 7.13% per annum, payable to the noteholder for the period from and including the issue date up to the maturity date if the call option is not exercised on the call option date. Interest shall be payable quarterly in arrears on March 6, June 6, September 6 and December 6 of each year, commencing June 6, 2008. The Subordinated Notes will mature on March 6, 2018, if not redeemed earlier.

c) The Subordinated Notes will constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company. The Subordinated Notes will, at all times, rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Parent Company, including holders of preferences shares.

d) The Parent Company may redeem the notes in whole, but not in part, at a redemption price equal to 100.00% of the principal amount of the Notes together with accrued and unpaid interest at first banking day after the 20th interest period from issue date subject to at least 30-day prior written notice to noteholders and prior approval of the BSP, subject to the following conditions: (i) the capital adequacy ratio of the Parent Company is at least equal to the required minimum ratio; and (ii) the Subordinated Note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the Subordinated Notes.

e) The Subordinated Note shall not be redeemable or terminable at the instance of any noteholder before maturity date.

The subordinated debt as of December 31, 2012 and 2011 is net of unamortized transaction costs amounting to ₱2.69 million and ₱17.21 million, respectively. Amortization of transaction costs included in interest expense amounted to ₱14.51 million, ₱13.42 million and ₱9.57 million in 2012, 2011 and 2010, respectively.

19. Insurance Provisions and Life Insurance Contract Liabilities

Insurance Provisions

This account consists of:

	December 31	
	2012	2011
Aggregate reserves for life policies	**₱3,788,346**	₱3,074,086
Policyholders' dividends due and unpaid	**213,238**	178,276
Provisions for IBNR	**53,349**	24,900
Policy and contract claims payable	**18,609**	9,455
	₱4,073,542	₱3,286,717

Details of the aggregate reserves for life policies (includes unearned charges for unit-linked policies) follow:

	December 31	
	2012	2011
Gross:		
With fixed and guaranteed terms		
Fixed and guaranteed - nonparticipating	**₱1,208,981**	₱860,682
Partially fixed and guaranteed - participating	**2,578,917**	2,213,099
Unit-linked	**3,854**	2,921
Total gross insurance liabilities	**3,791,752**	3,076,702

(Forward)

	December 31	
	2012	2011
Recoverable from reinsurers:		
With fixed and guaranteed terms		
Fixed and guaranteed - nonparticipating	**₱2,841**	₱2,115
Partially fixed and guaranteed - participating	**565**	501
Total reinsurers' share of insurance liabilities	**3,406**	2,616
Net:		
With fixed and guaranteed terms		
Fixed and guaranteed - nonparticipating	**1,206,140**	858,567
Partially fixed and guaranteed - participating	**2,578,352**	2,212,598
Unit-linked	**3,854**	2,921
	₱3,788,346	₱3,074,086

The aggregate reserves for life policies may be analyzed as follows:

Type	**Insurance Contract Liabilities**	**Reinsurer's Share of Liabilities**	**2012 Net**	2011 Net
Aggregate reserves for ordinary life policies	**₱3,673,295**	**₱752**	**₱3,672,543**	₱3,000,827
Aggregate reserves for group life policies	**114,603**	**2,654**	**111,949**	70,338
Aggregate reserves for unit-linked policies	**3,854**	**–**	**3,854**	2,921
	₱3,791,752	**₱3,406**	**₱3,788,346**	₱3,074,086

The movements during the year in aggregate reserves follow:

	Insurance Contract Liabilities	**Reinsurer's Share of Liabilities**	**2012 Net**	2011 Net
Balance at beginning of year	**₱3,076,703**	**₱2,617**	**₱3,074,086**	₱2,353,957
Premiums received	**815,001**	**637**	**814,364**	704,677
Liability released for payments of death, maturity and surrender benefits and claims	**(193,000)**	**10**	**(193,010)**	(122,534)
Exchange rate effect	**(99,713)**	**(24)**	**(99,689)**	–
Accretion of investment income	**192,761**	**166**	**192,595**	137,986
Balance at end of year	**₱3,791,752**	**₱3,406**	**₱3,788,346**	₱3,074,086

The movements during the years ended December 31, 2012 and 2011 in provisions for IBNR and contract claims payable follow:

	December 31	
	2012	2011
Balance at beginning of year	**₱34,355**	₱15,649
Arising during the year	**91,071**	56,337
Paid during the year	**(53,468)**	(37,631)
Balance at end of year	**₱71,958**	₱34,355

Life Insurance Contract Liabilities
For life insurance contracts with fixed and guaranteed terms (including partially fixed and guaranteed terms), PLII determines assumptions in relation to future deaths and investment returns at inception of the contracts. These assumptions are used for calculating the liabilities during the life of the contract. These assumptions are in compliance with statutory requirements.

Key assumptions
Assumptions used for product pricing is different from the assumptions used in calculating aggregate reserve for life policies. Pricing assumptions make use of best estimates in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used for evaluating the overall profitability of the product and the adequacy of the rates.

In calculating the aggregate reserves for life policies, assumptions on mortality and investment include a margin for risk and uncertainty. The effect of voluntary termination is not considered, although the inclusion of which would result in a lower liability due to the gains from surrender charges. Expenses are partially considered through a theoretical first year allowance as a result of the valuation method used by PLII, which is the Commissioners Reserve Valuation Method. The unearned premiums and cost of insurance charges are also held as an additional insurance provision.

The assumptions used in calculating the aggregate reserves for life policies follow:

- Mortality
  PLII's assumptions for its developed plans and acquired Mapfre plans are based on the 1980 Commissioner's Standard Ordinary (1980 CSO) table, (age last birthday, male/female unismoke) and the Philippine Intercompany Mortality table, respectively.

  An investigation into PLII's experience is performed annually, but the number and amount of claims have not reached a statistically significant level. Over the long run, the expected number of deaths is estimated to be 10.00% less than that assumed in the calculation of liabilities.

- Investment returns
  Philippine Peso
  5.00% for the long-term, participating whole life and endowment plans (2001 Series)
  6.00% for the Mapfre whole life and endowment plans (2003 acquired block)
  6.00% for the long-term, participating endowment plans (2006 Series)
  6.00% for short-term, non-participating endowment plans and long-term participating plans (2010 series)
  3.50% for short-term participating endowment plans, version 2 (2012 Series)

  US Dollar
  3.50% for the long-term, participating whole life and endowment plans (2002 Series)
  5.00% for the 12-Year Anticipated Endowment (2005 Series)
  3.25% for the 12-year Anticipated Endowment, version 2 (2012 Series)

  Changes in assumptions
  PLII did not change the valuation assumptions for the insurance contracts. These assumptions are an integral part of the insurance products submitted and approved by the IC.

Liability adequacy and sensitivity tests
The table below represents the result of the liability adequacy test conducted to determine the sufficiency of the aggregate reserves for life policies to meet future obligations of PLII from traditional policies inforce as of December 31, 2012 and 2011. The test involves the calculation of the discounted cash flows of expenses and guaranteed policy benefits, which were projected based on assumed contingencies as to mortality and withdrawal rates.

The table also shows the results of sensitivity tests conducted by assuming different interest rates and mortality assumptions. As each assumption is tested, all other assumptions are unchanged.

		Excess of aggregate reserve for life policies		
Mortality Assumption	Interest Rates Assumption	**2012**	2011	2010
1980 CSO (Select Factors: Yr 1 - 60.00%, Yr 2 - 80.00%, Yr 3+ - 90.00%)	Peso - 4.70% to 4.80%, Dollar - 3.80% to 4.20%	**₱175,585**	₱118,027	₱195,308
Higher by 20.00%	Peso - 4.70% to 4.80%, Dollar - 3.80% to 4.20%	**129,532**	71,070	81,836
Lower by 20.00%	Peso - 4.70% to 4.80%, Dollar - 3.80% to 4.20%	**239,335**	184,163	308,779
1980 CSO (Select Factors: Yr 1 - 60.00%, Yr 2 - 80.00%, Yr 3+ - 90.00%)	Higher by 100.00 basis points	**495,899**	341,748	394,933
1980 CSO (Select Factors: Yr 1 - 60.00%, Yr 2 - 80.00%, Yr 3+ - 90.00%)	Lower by 100.00 basis points	**40,693**	(263,947)	21,208

Reinsurance - Assumptions and Methods
PLII limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under the loans and receivables account in the assets section of the statement of financial position. Even though PLII may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. PLII is neither dependent on a single reinsurer nor are the operations of PLII substantially dependent upon any reinsurance contract.

20. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	December 31		December 31	
	2012	2011	**2012**	2011
Accounts payable	**₱1,537,025**	₱1,353,952	**₱1,405,324**	₱1,251,311
Domestic bills purchased	**1,479,122**	982,035	**1,354,704**	897,807
Outstanding acceptances payable	**302,648**	233,907	**302,648**	233,907
Premium deposit fund	**270,984**	265,117	**–**	–
Due to PDIC	**134,750**	135,603	**134,750**	135,603
Due to other banks	**67,481**	1,081,700	**67,481**	937,801
Withholding taxes payable	**54,174**	66,056	**53,121**	61,615
Cash letters of credit	**35,682**	174,133	**35,682**	174,133
Payment orders payable	**20,743**	121,463	**20,726**	114,901
Due to Treasurer of the Philippines	**2,324**	2,984	**2,296**	2,957
Miscellaneous (Note 24)	**184,117**	176,309	**126,720**	130,067
	4,089,050	4,593,259	**3,503,452**	3,940,102
Other liabilities included in disposal group classified as held-for-sale (Note 13)	**–**	11,224	**–**	–
	₱4,089,050	₱4,604,483	**₱3,503,452**	₱3,940,102

Premium deposit fund pertains to funds held by PLII for policyholding with interest rates ranging from 3.00% to 4.00% in 2012 and 2011. Interest expense amounting to ₱6.94 million, ₱8.22 million and ₱4.52 million for the years ended December 31, 2012, 2011 and 2010, respectively, were charged to statements of income in 'Bills payable and other borrowings' under 'Interest expense - others.' The carrying amount of premium deposit fund approximates its fair value.

As of December 31, 2012 and 2011, miscellaneous liabilities include deferred revenue on annual credit card fees amounting to ₱38.18 million and ₱30.09 million, respectively, and customer loyalty programs amounting to ₱31.61 million and ₱22.09 million, respectively.

21. Maturity Profile of Assets and Liabilities

The tables below present the assets and liabilities as of December 31, 2012 and 2011 and January 1, 2011 analyzed according to whether they are expected to be recovered or settled within one year or beyond one year from the statements of financial position date:

	December 31, 2012					
	Consolidated			Parent Company		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱3,885,613**	**₱–**	**₱3,885,613**	**₱3,621,910**	**₱–**	**₱3,621,910**
Due from BSP	**26,082,603**	**–**	**26,082,603**	**25,897,693**	**–**	**25,897,693**
Due from other banks	**11,771,750**	**–**	**11,771,750**	**3,719,056**	**–**	**3,719,056**
Interbank loans receivable and SPURA	**7,955,042**	**–**	**7,955,042**	**5,053,986**	**–**	**5,053,986**
Financial assets at FVPL						
Derivative assets	**148,761**	**–**	**148,761**	**150,023**	**–**	**150,023**
Held-for-trading	**7,226,765**	**–**	**7,226,765**	**7,226,765**	**–**	**7,226,765**

(Forward)

	December 31, 2012					
	Consolidated			Parent Company		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
AFS investments - gross	₱1,886,159	₱27,884,564	₱29,770,723	₱1,665,827	₱22,094,585	₱23,760,412
Loans and receivable - gross (Note 8):						
Receivables from customers	52,651,861	42,817,691	95,469,552	49,093,515	37,837,814	86,931,329
Unquoted debt securities	143,888	6,258,826	6,402,714	53,144	5,908,826	5,961,970
Accrued interest receivable	983,646	712,755	1,696,401	730,765	712,755	1,443,520
Accounts receivable	929,105	86,677	1,015,782	831,930	6,285	838,215
Sales contract receivable	100,781	328,349	429,130	94,407	322,767	417,174
Finance lease receivables	22,763	105,073	127,836	–	–	–
Other assets (Note 12):						
RCOCI	62,688	–	62,688	62,527	–	62,527
Bond sinking fund	50,000	–	50,000	50,000	–	50,000
Security deposits	2,899	33,723	36,622	2,899	33,529	36,428
Other investments	–	6,858	6,858	–	4,103	4,103
Nonfinancial Assets						
Residual value of leased assets	15,055	37,428	52,483	–	–	–
Investments in subsidiaries	–	–	–	–	4,142,618	4,142,618
Property and equipment - at appraised	–	3,368,392	3,368,392	–	3,338,721	3,338,721
Property and equipment - at cost	–	5,624,252	5,624,252	–	4,905,619	4,905,619
Investment properties - gross	–	4,500,222	4,500,222	–	4,294,568	4,294,568
Deferred tax asset	–	98,012	98,012	–	–	–
Other assets - gross (Note 12):						
Investment in Heritage Park	–	1,012,810	1,012,810	–	1,012,810	1,012,810
Creditable withholding taxes	261,798	–	261,798	260,448	–	260,448
Retirement asset	–	140,102	140,102	–	137,670	137,670
Goodwill	–	88,936	88,936	–	–	–
Prepaid expenses	67,429	–	67,429	58,430	–	58,430
Unused stationery and supplies	51,797	–	51,797	47,292	–	47,292
Intangible asset	–	49,519	49,519	–	–	–
Documentary stamps	40,550	–	40,550	40,272	–	40,272
Deferred charges	16,512	–	16,512	16,512	–	16,512
Chattel mortgage properties	–	1,924	1,924	–	1,924	1,924
Miscellaneous	152,081	–	152,081	100,688	–	100,688
	₱114,509,546	₱93,156,113	207,665,659	₱98,778,089	₱84,754,594	183,532,683
Unearned interest and discount (Note 8)			(172,774)			(142,846)
Capitalized interest (Note 8)			(696)			(552)
Accumulated depreciation and amortization:						
Property and equipment (Note 10)			(4,139,804)			(3,711,534)
Investment properties (Note 11)			(206,942)			(196,865)
Other assets (Note 12)			(1,601)			(1,601)
Allowance for impairment and credit losses:						
AFS investments (Note 7)			(68,637)			(68,637)
Loans and receivable (Note 8)			(4,883,491)			(4,593,962)
Property and equipment (Note 10)			(36,644)			(32,741)
Investment properties (Note 11)			(321,876)			(317,581)
Other assets (Note 12)			(55,991)			(55,991)
			₱197,777,203			₱174,410,373
Financial Liabilities						
Deposit liabilities	₱139,970,478	₱7,101,599	₱147,072,077	₱129,566,897	₱7,101,599	₱136,668,496
Derivative liabilities	106,066	–	106,066	106,755	–	106,755
Bills payable	5,042,586	20,118	5,062,704	4,982,586	20,118	5,002,704
Marginal deposits	34,374	–	34,374	34,374	–	34,374
Manager's checks and demand draft outstanding	438,543	–	438,543	429,530	–	429,530
Accrued interest payable	217,464	–	217,464	175,335	–	175,335
Subordinated debt	4,497,306	–	4,497,306	4,497,306	–	4,497,306
Insurance provision and liabilities	4,073,542	–	4,073,542	–	–	–
Other liabilities (Note 20):						
Accounts payable	1,537,025	–	1,537,025	1,405,324	–	1,405,324
Domestic bills purchased	1,479,122	–	1,479,122	1,354,704	–	1,354,704
Outstanding acceptances payable	302,648	–	302,648	302,648	–	302,648
Premium deposit fund	270,984	–	270,984	–	–	–
Due to PDIC	134,750	–	134,750	134,750	–	134,750

(Forward)

	December 31, 2012					
	Consolidated			**Parent Company**		
	Due Within One Year	**Due Beyond One Year**	**Total**	**Due Within One Year**	**Due Beyond One Year**	**Total**
Due to other banks	**₱67,481**	**₱–**	**₱67,481**	**₱67,481**	**₱–**	**₱67,481**
Cash letters of credit	**35,682**	**–**	**35,682**	**35,682**	**–**	**35,682**
Payment orders payable	**20,743**	**–**	**20,743**	**20,726**	**–**	**20,726**
Due to Treasurer of the Philippines	**2,324**	**–**	**2,324**	**2,296**	**–**	**2,296**
Nonfinancial Liabilities						
Accrued taxes, interest and other expenses	**1,130,265**	**–**	**1,130,265**	**995,423**	**–**	**995,423**
Income tax payable	**38,985**	**–**	**38,985**	**434**	**–**	**434**
Deferred tax liability	**–**	**510,430**	**510,430**	**–**	**509,722**	**509,722**
Other liabilities (Note 20):						
Withholding taxes payable	**54,174**	**–**	**54,174**	**53,121**	**–**	**53,121**
Miscellaneous	**184,117**	**–**	**184,117**	**126,720**	**–**	**126,720**
	₱159,638,659	**₱7,632,147**	**₱167,270,806**	**₱144,292,092**	**₱7,631,439**	**₱151,923,531**

	December 31, 2011 (As restated - Notes 2 and 35)					
	Consolidated			Parent Company		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and other cash items	₱4,023,559	₱–	₱4,023,559	₱3,719,876	₱–	₱3,719,876
Due from BSP	18,286,303	–	18,286,303	18,174,486	–	18,174,486
Due from other banks	10,821,079	–	10,821,079	4,106,005	–	4,106,005
Interbank loans receivable and SPURA	12,578,296	–	12,578,296	10,120,198	–	10,120,198
Financial assets at FVPL						
Derivative assets	113,671	84,602	198,273	112,241	84,602	196,843
Held-for-trading	499,496	–	499,496	499,496	–	499,496
AFS investments - gross	3,635,234	36,761,422	40,396,656	3,428,177	31,704,732	35,132,909
Loans and receivable - gross(Note 8):						
Receivables from customers	51,114,017	40,255,833	91,369,850	47,312,832	34,275,936	81,588,768
Unquoted debt securities	3,357	6,403,127	6,406,484	3,357	5,959,953	5,963,310
Accrued interest receivable	1,850,135	–	1,850,135	1,693,097	–	1,693,097
Accounts receivable	773,643		773,643	660,046	–	660,046
Sales contract receivable	90,319	559,487	649,806	84,695	559,487	644,182
Finance lease receivables	9,301	95,851	105,152	–	–	–
Other assets (Note 12):						
RCOCI	84,621	–	84,621	84,351	–	84,351
Bond sinking fund	–	50,000	50,000	–	50,000	50,000
Security Deposits		47,726	47,726		37,734	37,734
Other investments	–	·3,771	3,771	–	3,753	3,753
Nonfinancial Assets						
Residual value of leased assets	12,131	32,711	44,842	–	–	–
Investments in subsidiaries	–	–	–	–	4,172,118	4,172,118
Property and equipment - at appraised	–	2,971,633	2,971,633	–	2,941,962	2,941,962
Property and equipment - at cost	–	5,470,819	5,470,819	–	4,736,852	4,736,852
Investment properties - gross	–	4,862,579	4,862,579	–	4,544,144	4,544,144
Deferred tax asset	–	33,572	33,572	–	–	–
Other assets - gross (Note 12):						
Investment in Heritage Park	–	1,034,118	1,034,118	–	1,034,118	1,034,118
Creditable withholding taxes	251,556	–	251,556	250,019	–	250,019
Retirement asset	–	184,404	184,404	–	182,018	182,018
Prepaid expenses	109,079	–	109,079	97,821	–	97,821
Goodwill	–	88,936	88,936	–	–	–
Unused stationery and supplies	52,168	–	52,168	45,311	–	45,311
Documentary stamps	41,689	–	41,689	41,501	–	41,501
Deferred charges	24,829	–	24,829	24,829	–	24,829
Chattel mortgage properties	–	1,924	1,924	–	1,924	1,924
Interoffice float items	347	–	347	–	–	–
Miscellaneous	59,204	–	59,204	28,643	–	28,643
	₱104,434,034	₱98,942,515	203,376,549	₱90,486,981	₱90,289,333	180,776,314

(Forward)

	December 31, 2011 (As restated - Notes 2 and 35)					
	Consolidated			Parent Company		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Unearned interest and discount (Note 8)			(₱251,070)			(₱228,130)
Capitalized interest (Note 8)			(3,605)			(3,001)
Accumulated depreciation and amortization:						
Property and equipment (Note 10)			(3,902,477)			(3,490,228)
Investment properties (Note 11)			(210,365)			(203,638)
Other assets (Note 12)			(1,601)			(1,601)
Allowance for impairment and credit losses:						
AFS investments (Note 7)			(64,824)			(64,824)
Loans and receivable (Note 8)			(3,441,045)			(3,224,437)
Property and equipment (Note 10)			(1,272)			(287)
Investment properties (Note 11)			(334,355)			(331,118)
Other assets (Note 12)			(56,544)			(56,544)
			195,109,391			173,172,506
Assets of disposal group classified as held-for-sale (Note 13)			7,422,682			20,500
			₱202,532,073			₱173,193,006
Financial Liabilities						
Deposit liabilities	₱143,536,928	₱3,572,670	₱147,109,598	₱132,520,029	₱3,582,549	₱136,102,578
Derivative liabilities	68,843	21,568	90,411	75,512	21,568	97,080
Bills payable	4,215,466	62,469	4,277,935	4,508,714	22,469	4,531,183
Marginal deposits	13,761	–	13,761	13,761	–	13,761
Manager's checks and demand draft outstanding	928,009	–	928,009	911,382	–	911,382
Accrued interest payable	267,406	–	267,406	257,937	–	257,937
Subordinated debt	–	4,482,791	4,482,791	–	4,482,791	4,482,791
Insurance provision and liabilities	3,286,717	–	3,286,717	–	–	–
Other liabilities (Note 20):						
Accounts payable	1,353,952	–	1,353,952	1,251,311	–	1,251,311
Due to other banks	1,081,700	–	1,081,700	937,801	–	937,801
Domestic bills purchased	982,035	–	982,035	897,807	–	897,807
Premium deposit fund	265,117	–	265,117	–	–	–
Outstanding acceptances payable	233,907	–	233,907	233,907	–	233,907
Cash letters of credit	174,133	–	174,133	174,133	–	174,133
Due to PDIC	135,603	–	135,603	135,603	–	135,603
Payment orders payable	121,463	–	121,463	114,901	–	114,901
Due to Treasurer of the Philippines	2,984	–	2,984	2,957	–	2,957
Nonfinancial Liabilities						
Accrued taxes, interest and other expenses	900,979	–	900,979	794,431	–	794,431
Income tax payable	21,412	–	21,412	–	–	–
Deferred tax liability	–	417,470	417,470	–	408,750	408,750
Other liabilities (Note 20):						
Withholding taxes payable	66,056	–	66,056	61,615	–	61,615
Miscellaneous	144,503	31,806	176,309	130,067	–	130,067
	₱157,800,974	₱8,588,774	166,389,748	₱143,021,868	₱8,518,127	151,539,995
Liabilities of disposal group classified as held-for-sale (Note 13)			6,017,084			–
			₱172,406,832			₱151,539,995

	January 1, 2011					
	Consolidated			Parent Company		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and other cash items	₱4,636,820	₱–	₱4,636,820	₱4,280,874	₱–	₱4,280,874
Due from BSP	16,297,912	–	16,297,912	13,892,789	–	13,892,789
Due from other banks	7,442,201	–	7,442,201	2,938,976	–	2,938,976
IBCL and SPURA	15,058,026	–	15,058,026	14,470,270	–	14,470,270
Financial assets at FVPL						
Derivative assets	121,148	137,868	259,016	121,148	137,798	258,946
Held-for-trading	3,247,995	–	3,247,995	3,247,995	–	3,247,995
AFS investments - gross	10,043,271	10,522,148	20,565,419	9,825,518	7,849,064	17,674,582
HTM investments - gross	5,370,457	15,583,882	20,954,339	5,370,456	14,360,797	19,731,253
Loans and receivable - gross (Note 8):						
Receivables from customers	46,148,465	28,627,205	74,775,670	41,586,324	23,624,077	65,210,401
Unquoted debt securities	356,407	6,359,190	6,715,597	310,816	5,956,811	6,267,627
Accrued interest receivable	1,710,052	–	1,710,052	1,575,741	–	1,575,741
Accounts receivable	735,631	–	735,631	675,772	–	675,772
Sales contract receivable	257,045	381,805	638,850	238,078	384,590	622,668
Finance lease receivables	7,273	86,227	93,500	–	–	–
Other assets (Note 12):						
RCOCI	93,362	–	93,362	91,437	–	91,437
Bond sinking fund	–	50,000	50,000	–	50,000	50,000
Security Deposits	–	52,702	52,702		44,778	44,778
Other investments	–	3,959	3,959	–	3,941	3,941
Nonfinancial Assets						
Residual value of leased assets	2,468	36,818	39,286	–	–	–
Investments in subsidiaries	–	–	–	–	4,172,118	4,172,118
Property and equipment - at appraised	–	2,958,427	2,958,427	–	2,941,962	2,941,962
Property and equipment - at cost	–	5,599,185	5,599,185	–	4,893,220	4,893,220
Investment properties - gross	–	5,182,525	5,182,525	–	4,902,329	4,902,329
Deferred tax asset	–	41,130	41,130	–	–	–
Other assets - gross (Note 12):						
Investment in Heritage Park	–	1,106,852	1,106,852	–	1,106,639	1,106,639
Creditable withholding taxes	196,989	–	196,989	195,928	–	195,928
Retirement asset	–	174,061	174,061	–	171,650	171,650
Prepaid expenses	79,459	–	79,459	66,585	–	66,585
Goodwill	–	88,936	88,936	–	–	–
Unused stationery and supplies	44,197	–	44,197	39,782	–	39,782
Documentary stamps	44,330	–	44,330	44,330	–	44,330
Deferred charges	32,032	–	32,032	32,032	–	32,032
Chattel mortgage properties	–	1,601	1,601	–	1,601	1,601
Interoffice float items	201,886	–	201,886	201,445	–	201,445
Miscellaneous	163,389	–	163,389	144,059	–	144,059
	₱112,290,815	₱76,994,521	189,285,336	₱99,350,355	₱70,601,375	169,951,730
Unearned interest and discount (Note 8)			(238,763)			(196,719)
Capitalized interest (Note 8)			(3,328)			(2,724)
Accumulated depreciation and amortization:						
Property and equipment (Note 10)			(3,893,698)			(3,520,254)
Investment properties (Note 11)			(252,530)			(245,392)
Other assets (Note 12)			(1,601)			(1,601)
Allowance for impairment and credit losses:						
AFS investments (Note 7)			(64,824)			(64,824)
HTM investments			(11,048)			(11,048)
Loans and receivable (Note 8)			(3,250,295)			(3,042,637)
Property and equipment (Note 10)			(4,352)			(4,352)
Investment properties (Note 11)			(393,591)			(390,355)
Other assets (Note 12)			(56,454)			(56,454)
			181,114,852			162,415,370
Assets of disposal group classified as held-for-sale (Note 13)			8,335,957			20,500
			₱189,450,809			₱162,435,870

(Forward)

	January 1, 2011					
	Consolidated			Parent Company		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	₱137,994,164	₱3,500,000	₱141,494,164	₱129,788,651	₱3,500,000	₱133,288,651
Derivative liabilities	106,617	31,778	138,395	106,617	30,693	137,310
Bills payable	1,596,332	12,639	1,608,971	1,385,473	12,639	1,398,112
Marginal deposits	38,290	–	38,290	37,077	–	37,077
Manager's checks and demand draft outstanding	418,184	–	418,184	409,386	–	409,386
Accrued interest payable	211,410	–	211,410	199,316	–	199,316
Subordinated debt	–	4,469,369	4,469,369	–	4,469,369	4,469,369
Insurance provision and liabilities	2,512,138	–	2,512,138	–	–	–
Other liabilities (Note 20):						
Accounts payable	1,095,489	–	1,095,489	1,023,945	–	1,023,945
Due to other banks	844,889	–	844,889	9,626	–	9,626
Domestic bills purchased	1,169,294	–	1,169,294	1,064,758	–	1,064,758
Premium deposit fund	213,119	–	213,119	–	–	–
Outstanding acceptances payable	294,334	–	294,334	294,334	–	294,334
Cash letters of credit	208,990	–	208,990	208,990	–	208,990
Due to PDIC	132,208	–	132,208	132,208	–	132,208
Payment orders payable	136,968	–	136,968	132,636	–	132,636
Due to Treasurer of the Philippines	2,772	–	2,772	2,744	–	2,744
Nonfinancial Liabilities						
Accrued taxes, interest and other expenses	901,248	–	901,248	804,463	–	804,463
Income tax payable	16,614	–	16,614	1,440	–	1,440
Deferred tax liability	–	410,897	410,897	–	406,682	406,682
Other liabilities (Note 20):						
Withholding taxes payable	64,435	–	64,435	63,088	–	63,088
Miscellaneous	145,620	39,286	184,906	134,790	–	134,790
	₱148,103,115	₱8,463,969	156,567,084	₱135,799,542	₱8,419,383	144,218,925
Liabilities of disposal group classified as held-for-sale (Note 13)			6,965,387			–
			₱163,532,471			₱144,218,925

22. Equity

Capital stock as of December 31, 2012 and 2011 and January 1, 2011 consists of:

Preferred	
Authorized, issued and outstanding	
50,000 shares, ₱1,000 par value	₱50,000
Common	
Authorized - 11,450,000 shares,	
₱1,000 par value - ₱11.45 billion	
Issued and outstanding - 3,252,495 shares	3,252,495

On February 26, 1981, the BOD of the Parent Company authorized the issuance and public offering of 50,000 preferred shares in the amount of ₱50.00 million. This was approved and ratified by the stockholders on March 26, 1981 and was subsequently approved by the BSP and SEC on November 12, 1981 and November 25, 1981, respectively.

The preferred shares were fully subscribed to and paid for by two shareholders at par value.

The Parent Company's preferred shares have the following features:

a. nonvoting, cumulative and entitled to guaranteed dividends of 15.00% per annum;
b. convertible into common stock in case of nonpayment of dividends for three consecutive years. The conversion value of the preferred stock is at the rate of peso for peso of its par value to prevailing book value of the common stock at the time of conversion; and
c. redeemable in whole or in part at the option of the Parent Company, upon 30-day notice at par value plus accrued dividends at the time of redemption.

On January 29, 2003, the BOD approved the establishment of a sinking fund of ₱50.00 million, equal to the outstanding preferred shares redeemable at their maturity dates. As of December 31, 2012 and 2011, the fund is shown as 'Bond sinking fund' included under 'Other assets' in the statements of financial position (see Note 12).

On December 16, 2011, the BOD in a special meeting approved the declaration and payment of accumulated cash dividend on the preferred shares as of December 31, 2011 covering the period from January 1, 2008 to December 31, 2011 at the rate of ₱600.00 per preferred share. This was subsequently approved by the BSP on February 6, 2012 and was paid by the Parent Company on May 8, 2012.

Dividend in arrears on the preferred shares amounted to ₱7.50 million.

Equity Adjustment from Conversion
In 2008, as a result of the conversion of US$50.00 million worth of Upper Tier 2 subordinated debt to capital stock, the Parent Company recognized an adjustment from conversion charged to equity amounting to ₱592.15 million.

Capital Management
The primary objectives of the Group'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 Group 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 Group may adjust the amount of dividend payment to stockholders, return capital to stockholders, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Group and its individual regulatory operations have complied with all externally imposed capital requirements throughout the period.

Regulatory capital
The following table sets the regulatory capital per CAR Report as submitted to BSP as at December 31, 2012, 2011 and 2010 (amounts in billions):

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Common stock	**₱3.25**	₱3.25	₱3.25	**₱3.25**	₱3.25	₱3.25
Surplus	**14.10**	12.66	11.37	**14.10**	12.66	11.37
Cumulative foreign currency translation	**0.41**	0.66	0.66	–	–	–
Undivided profit	**2.08**	1.55	1.38	**1.99**	1.33	1.27
Non-controlling interest	**4.72**	5.17	5.02	–	–	–
Tier 1 (core) capital	**24.56**	23.29	21.68	19.34	17.24	15.89
Unsecured DOSRI	**0.00**	0.00	0.09	**0.00**	0.00	0.09
Deferred income tax	**0.39**	0.39	0.41	**0.31**	0.31	0.31
Deduction from Tier 1	**0.39**	0.39	0.50	**0.31**	0.31	0.40
Total Tier 1 capital	**24.17**	22.90	21.18	**19.03**	16.93	15.49
Deductions from Tier 1 and Tier 2	**0.18**	0.16	0.16	**2.93**	2.86	2.80
Net Tier 1 capital	**23.99**	22.74	21.02	**16.10**	14.07	12.69
Preferred stock	**0.05**	0.05	0.05	**0.05**	0.05	0.05
General loan loss provision	**1.13**	1.10	0.95	**0.98**	1.00	0.80
Upper Tier 2	**1.18**	1.15	1.00	**1.03**	1.05	0.85
Lower Tier 2	**4.50**	4.49	4.47	**4.49**	4.49	4.47
Total Tier 2 capital	**5.68**	5.64	5.47	**5.52**	5.54	5.32
Deductions from Tier 1 and Tier 2	**0.18**	0.16	0.16	**2.93**	2.86	2.80
Net Tier 2 capital	**5.50**	5.48	5.31	**2.59**	2.68	2.52
Total qualifying capital	**₱29.49**	**₱28.22**	₱26.33	**₱18.69**	**₱16.75**	₱15.21
Capital ratios						
Tier 1 capital ratio	**17.07%**	15.77%	15.51%	**13.56%**	12.11%	11.91%
Tier 2 capital ratio	**3.91%**	3.80%	3.91%	**2.19%**	2.31%	2.36%
Risk Based CAR	**20.98%**	19.57%	19.42%	**15.75%**	14.42%	14.27%

The risk-weighted assets per CAR Report submitted to BSP by the Group and Parent Company as of December 31, 2012, 2011 and 2010 are as follows (amounts in billions):

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Risk-weighted on balance sheet assets:	**₱109.25**	₱119.50	₱105.36	**₱93.85**	₱96.48	₱84.98
20%	**3.29**	2.13	3.22	**2.38**	1.29	2.10
50%	**2.66**	4.23	3.68	**1.77**	3.09	2.72
75%	**11.08**	9.74	7.38	**10.75**	9.44	7.23
100%	**86.27**	94.03	81.41	**73.10**	75.22	65.03
150%	**5.95**	9.37	9.67	**5.85**	7.44	7.90
Off-balance sheet assets:	**3.45**	3.16	3.10	**3.08**	2.92	2.80
20%	–	–	–	–	–	–
50%	–	–	–	–	–	–
75%	**0.41**	0.42	0.41	**0.41**	0.43	0.41
100%	**3.04**	2.74	2.69	**2.67**	2.49	2.39
150%	–	–	–	–	–	–
Interest / exchange rate-related	**0.28**	0.49	0.54	**0.27**	0.48	0.55
Securitization exposures	–	–	–	–	–	–
Assets covered by Mitigants	**6.14**	8.69	5.45	**5.68**	8.43	5.21
Deduction on credit risk-weight GLLP (in excess of amount UT2)	**0.49**	–	–	**0.57**	–	–
Total credit risk-weighted assets	**112.49**	123.15	109.00	**96.63**	99.88	88.33
Market risk-weighted assets	**11.60**	6.03	12.62	**7.54**	3.00	6.16
Operational risk-weighted assets	**16.43**	14.99	13.94	**14.61**	13.25	12.19
Total risk weighted assets	**₱140.52**	₱144.17	₱135.56	**₱118.78**	₱116.13	₱106.68

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) as reported to the BSP, which is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

Specifically under existing BSP regulations, the risk-based capital adequacy 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 (the Parent Company and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Credit 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 of the BSP.

Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio (CAR) is to be inclusive of a market risk charge. In August 2006, the BSP issued Circular No. 538 which contains the implementing guidelines for the revised risk-based capital adequacy framework to conform to Basel II recommendations. Under the revised framework, capital requirements for operational risk, credit derivatives and securitization exposures are to be included in the calculation of the Parent Company's capital adequacy. The revised framework also prescribes a more granular mapping of external credit ratings to the capital requirements and recognizes more types of financial collateral and guarantees as credit risk mitigants. Changes in the credit risk weights of various assets, such as foreign currency denominated exposures to the Philippine National Government, non-performing exposures and investment properties, were also made. Exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit assessment institutions. Credit risk-weights range from 0.00% to 150.00% depending on the type of exposure and/or credit assessment of the obligor. The new guidelines took effect last July 1, 2007.

The Parent Company embarked on a comprehensive program to update existing products, policies and procedures manuals incorporating new bank policies, laws and regulations and BSP requirements to further strengthen the management and operations of the Parent Company including its branches, affiliates and subsidiaries. In addition, the Parent Company has been implementing continuous enhancements in the areas of risk management, internal controls, technology and strategic planning to streamline management oversight and performance monitoring of its head office, branches, affiliates and subsidiaries. This is in preparation for more competitive business environment and much tougher requirements of Basel II, the international banking standards adopted by BSP.

The BSP issued Circular No. 639 dated January 15, 2009, ICAAP and Supervisory Review Process (SRP) setting out guidelines that universal banks and commercial banks, on a group-wide basis, should follow in the design and use of their banks ICAAP.

The ICAAP supplements the BSP's Risk Based Capital Adequacy Framework for the Philippine banking system conforming to Basel II recommendations as contained in Circular No. 538 issued in August 4, 2006.

The Parent Company created an ICAAP Task Force consisting of Profit Center and Cost Center Heads. The ICAAP Task Force has developed the ABC ICAAP Model which is a consistent approach of the Group's implementation of a robust process for the assessment of its capital adequacy in relation to its risk profiles as well as the Group's overall business strategy and its capital levels. On February 23, 2011, the BOD has approved the reconstitution of the ICAAP Task Force into an ICAAP Management Committee. The Committee is chaired by the President and includes the ICAAP Core Team (formerly ICAAP Project Team) and Heads of all Profit and Major Cost Centers.

The Parent Company ICAAP Model diagrams the process flow of the eight (8) different components modules of the ICAAP activity namely: (1) Strategic Planning; (2) Asset Management; (3) Risk Management; (4) Tax Planning; (5) Loss Management; (6) CAR Management; (7) Capital Planning; and (8) Contingency Planning with the main objective of establishing the linkage between Strategic Planning, Risk Management and Capital Planning. Each module has specific manuals and operations memoranda detailing the description of the processes, the role and the responsibilities of the key players, and the major activities of each division directly involved which must be fully understood by all parties involved.

For every module in the ICAAP Model, there may be several functional business operations groups, Management Committees, and Board Committees providing insight on a regular basis given that each of the modules is subject to periodic independent monitoring and reviews by the responsible committees. Moreover, these committees conduct a comprehensive evaluation of the policies and procedures, processes and reports.

On January 31, 2011, the Parent Company submitted the 2011 ICAAP Document to BSP. This was subjected by BSP to series of assessment as well as on site validation in March 2011. The Internal Audit and Compliance Divisions conducted an independent validation and compliance review of the ICAAP in December 2011.

On January 31, 2012, the Parent Company submitted to BSP the updates and amendments to the 2011 ICAAP document.

On August 2, 2012, the BSP, as part of the merger incentive, extended the submission of the merged bank's ICAAP for 2013 from January 31, 2013 to August 9, 2013.

Surplus Reserves

The surplus reserves consist of:

	December 31	
	2012	2011
Reserve for trust business (Note 28)	**₱144,146**	₱136,207
Reserve for self-insurance	**18,000**	18,000
Reserve for contingencies and other accounts	**51,000**	51,000
	₱213,146	₱205,207

Reserve for self-insurance, contingencies and other account represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

PLII's Fixed capitalization requirements
Department of Finance (DOF) issued Order 27-06 which provides for the capitalization requirements for life, non-life and reinsurance companies. Under this order, the minimum statutory net worth and minimum paid-up capital requirements vary depending on the level of the foreign ownership in the insurance company. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. On June 1, 2012, the DOF issued Order 15-2012 which serves as a supplement to Order 27-06 which provides capitalization requirements beyond December 31, 2012.

On October 29, 2008, the IC issued Circular Letter No. 26-2008, which recalls that in view of the compliance of insurance companies with the requirement of Insurance Memorandum Circular (IMC) No. 10-2006, the scheduled increases due December 31, 2007 (i.e. ₱150 million) have been deferred for a year. Hence, the IMC reiterates that by December 31, 2008, insurance companies should comply with the increase previously scheduled for December 31, 2007.

As of December 31, 2012 and 2011, the required minimum statutory net worth and minimum paid-up capital for PLII, being a wholly-owned Filipino life insurance company, is ₱500 million and ₱250 million, respectively, in 2012 and ₱350 million and ₱175 million, respectively, in 2011. PLII has complied with the minimum statutory net worth and paid-up capital requirements as of December 31, 2012 and 2011 based on PLII's own calculation.

23. Miscellaneous Income

This account consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Premiums - net of reinsurance	**₱1,416,953**	₱1,179,474	₱805,309	**₱–**	₱–	₱–
Interchange fees and awards revenue on credit cards	**255,422**	161,199	119,749	**255,422**	161,199	119,749
Gain on sale of investment properties (Note 11)	**211,527**	112,118	228,667	**203,228**	99,416	222,058
Rental (Notes 11, 25 and 30)	**142,504**	118,803	115,943	**135,752**	107,012	115,847
Credit cards and ATM transaction fees	**84,127**	51,201	38,757	**84,127**	51,201	38,757
Penalty charges	**80,033**	70,316	111,524	**80,033**	70,316	111,524
Income from trust operations	**79,450**	59,916	46,598	**79,450**	59,916	46,598
Dividends	**1,801**	3,692	1,567	**5,583**	3,692	2,988
Miscellaneous (Note 10)	**298,072**	235,065	380,155	**208,836**	164,049	261,591
	2,569,889	1,991,784	1,848,269	**1,052,431**	716,801	919,112
Miscellaneous income attributed to disposal group classified as held-for-sale (Note 13)	**3,554**	4,036	3,973	**–**	–	–
	₱2,573,443	₱1,995,820	₱1,852,242	**₱1,052,431**	₱716,801	₱919,112

The details of net premiums on insurance contracts are shown below:

	2012	2011	2010
Ordinary life insurance	**₱1,109,287**	₱956,227	₱732,205
Group life insurance	**206,385**	194,230	60,887
Unit-linked	**112,030**	38,629	18,498
Life insurance premiums revenue	**1,427,702**	1,189,086	811,590
Ordinary life insurance	**485**	4,816	1,465
Group life insurance	**10,264**	4,796	4,816
Less: Reinsurers' share of life insurance contracts premiums revenue	**10,749**	9,612	6,281
Total net insurance premiums	**₱1,416,953**	₱1,179,474	₱805,309

24. Retirement Plan

Defined benefit plan

The Parent Company and its local subsidiaries have funded non-contributory defined benefit retirement plan covering all their respective permanent and full-time employees. The retirement fund is administered by the Parent Company's Trust and Investments Division which acts as the trustee under the plan. Qualified employees of the Parent Company which have been seconded to its subsidiaries are covered by the Parent Company's Plan. Under this Plan, the employees receive a defined amount of pension benefit upon retirement dependent on one or more factors such as age, years of service and salary. A full actuarial valuation of the Plan is carried out by a qualified independent actuary at least once every two years.

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 principal actuarial assumptions used in determining the retirement liability for the Parent Company and certain subsidiaries' retirement plan are shown below:

	As of January 1, 2012			
	Parent Company	**ASB**	**ALFC**	**PLII**
Discount rate	4.90%	6.00%	6.75%	6.80%
Expected rate of return on assets	5.00%	5.00%	5.00%	6.00%
Future salary increases	5.00%	7.00%	5.00%	6.00%
Average remaining working life	11	12	10	12

	As of January 1, 2011			
	Parent Company	ASB	ALFC	PLII
Discount rate	6.75%	10.13%	7.00%	11.02%
Expected rate of return on assets	7.00%	6.00%	7.00%	7.00%
Future salary increases	5.00%	5.00%	5.00%	7.00%
Average remaining working life	11	9	10	12

	As of January 1, 2010			
	Parent Company	ASB	ALFC	PLII
Discount rate	9.14%	10.13%	7.00%	11.02%
Expected rate of return on assets	7.00%	6.00%	7.00%	7.00%
Future salary increases	7.00%	5.00%	5.00%	7.00%
Average remaining working life	11	9	10	12

Discount rates used in computing the present value of the obligation of the Parent Company and significant subsidiaries as of December 31, 2012 and 2011 are as follows:

	Parent Company	ASB	ALFC	PLII
2012	**4.90%**	**4.00%**	**4.90%**	**4.00%**
2011	5.70%	7.40%	6.75%	7.25%
2010	6.75%	10.13%	7.00%	11.02%

The summary of the valuation results for the Plan follows:

	Consolidated		**Parent Company**	
	December 31		**December 31**	
	2012	2011	**2012**	2011
Present value of the obligation	₱1,648,060	₱2,082,715	**₱1,595,404**	₱2,038,889
Fair value of plan assets	859,813	763,970	**806,456**	716,023
Deficit	(788,247)	(1,318,745)	**(788,948)**	(1,322,866)
Unrecognized actuarial losses	927,626	1,503,138	**926,618**	1,504,884
Unrecognized past service cost - nonvested benefits	10	11	–	–
Net retirement asset	₱139,389	₱184,404	**₱137,670**	₱182,018

Net retirement assets and liabilities included under 'Other assets' and 'Miscellaneous' under 'Other liabilities', respectively, in the statements of financial position follow:

	Consolidated		**Parent Company**	
	December 31		**December 31**	
	2012	2011	**2012**	2011
Net retirement asset (Note 12)	**₱140,102**	₱184,404	**₱137,670**	₱182,018
Net retirement liability (Note 20)	**(713)**	–	–	–
Net retirement asset	**₱139,389**	₱184,404	**₱137,670**	₱182,018

The movements in the present value of obligations of the Plan follow:

	Consolidated		**Parent Company**	
	2012	2011	**2012**	2011
Balance at beginning of year	**₱2,082,715**	₱2,098,220	**₱2,038,889**	₱2,064,897
Past service cost - vested	–	34,724	–	33,825
Current service cost	**137,853**	109,261	**131,140**	105,256
Interest cost	**118,960**	141,821	**116,217**	139,381
Actuarial losses (gains)	**(439,834)**	394,150	**(442,475)**	382,801
Benefits paid	**(251,634)**	(695,461)	**(248,367)**	(687,271)
Balance at end of year	**₱1,648,060**	₱2,082,715	**₱1,595,404**	₱2,038,889

The movements in the fair value of the assets of the Plan follow:

	Consolidated		**Parent Company**	
	2012	2011	**2012**	2011
Balance at beginning of year	**₱763,970**	₱1,065,831	**₱716,023**	₱1,019,897
Expected return on plan assets	**38,315**	73,801	**35,801**	71,393
Contribution	**291,494**	317,159	**285,480**	309,270
Benefits paid	**(251,634)**	(695,461)	**(248,367)**	(687,271)
Actuarial gains (losses)	**17,668**	2,640	**17,519**	2,734
Balance at end of year	**₱859,813**	₱763,970	**₱806,456**	₱716,023

The Group and the Parent Company expects to contribute ₱285.90 million and ₱285.48 million, respectively, to defined benefit plan in 2013. Actual return on plan assets of the Group amounted to ₱55.98 million and ₱76.44 million in 2012 and 2011, respectively, and ₱53.32 million and ₱74.13 million in 2012 and 2011, respectively, for the Parent Company.

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

	Consolidated		Parent Company	
	December 31		December 31	
	2012	2011	**2012**	2011
Deposits in BSP and banks	**43.45%**	50.15%	**37.55%**	39.63%
Debt instruments	**53.20**	47.40	**55.76**	51.29
Other assets	**3.35**	2.45	**6.69**	9.08
	100.00%	100.00%	**100.00%**	100.00%

The amounts included in 'Compensation and fringe benefits' in the statements of income follow:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Interest cost	**₱118,960**	₱141,821	₱181,731	**₱116,217**	₱139,381	₱178,116
Current service cost	**137,853**	109,261	106,911	**131,140**	105,256	103,053
Actuarial loss recognized during the year	**118,010**	90,950	51,851	**118,272**	91,833	54,176
Past service - cost vested	**1**	34,724	–	**–**	33,825	–
Expected return on plan assets	**(38,315)**	(73,801)	(96,714)	**(35,801)**	(71,393)	(93,694)
Curtailment gain	**–**	–	(825)	**–**	–	–
	₱336,509	₱302,955	₱242,954	**₱329,828**	₱298,902	₱241,651

Movements in the net retirement asset included in Other assets follow:

	Consolidated		Parent Company	
	December 31		December 31	
	2012	2011	**2012**	2011
Balance at the beginning of year	**₱184,404**	₱170,200	**₱182,018**	₱171,650
Retirement expense	**(336,509)**	(302,955)	**(329,828)**	(298,902)
Contribution	**291,494**	317,159	**285,480**	309,270
Balance at the end of year	**₱139,389**	₱184,404	**₱137,670**	₱182,018

Movements in the accumulated unrecognized actuarial losses of the Plan follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balance at beginning of year	**(₱1,503,138)**	(₱1,202,578)	**(₱1,504,884)**	(₱1,216,650)
Actuarial gains (losses) on the present value of the defined benefit obligations	**439,834**	(394,150)	**442,475**	(382,801)
Actuarial gain on plan assets	**17,668**	2,640	**17,519**	2,734
Actuarial loss recognized during the year	**118,010**	90,950	**118,272**	91,833
Balance at the end of the year	**(₱927,626)**	(₱1,503,138)	**(₱926,618)**	(₱1,504,884)

Amounts for the current and previous years follow:

	Consolidated				
	2012	2011	2010	2009	2008
Present value of obligations	**₱1,648,060**	₱2,082,715	₱2,098,220	₱1,984,819	₱ 1,539,529
Fair value of plan assets	**859,813**	763,970	1,065,831	1,385,335	1,335,552
Deficit	**(788,247)**	(1,318,745)	(1,032,389)	(599,484)	(203,977)
Change in assumptions on plan liabilities	**(162,667)**	452,213	265,895	221,685	(441,645)
Experience adjustment on plan liabilities	**(276,045)**	(79,576)	208,874	288,503	212,696
Experience adjustment on plan assets	**(17,728)**	2,640	(7,443)	(15,120)	(282,601)

	Parent Company				
	2012	2011	2010	2009	2008
Present value of obligations	**₱1,595,404**	₱2,038,889	₱2,064,897	₱1,948,750	₱1,507,169
Fair value of plan assets	**806,456**	716,023	1,019,897	1,338,492	1,292,735
Deficit	**(788,948)**	(1,322,866)	(1,045,000)	(610,258)	(214,434)
Change in assumptions on plan liabilities	**(162,667)**	452,213	263,957	221,685	(437,564)
Experience adjustment on plan liabilities	**(279,808)**	(69,412)	208,057	293,800	212,696
Experience adjustment on plan assets	**17,519**	2,734	(7,992)	(19,595)	(284,879)

Defined contribution plan
For maximum benefits under the Plan, the Parent Company also provides an Employee Investment and Savings Program (EISP) wherein an employee may invests monthly during his employment with the Parent Company an amount not less than 1.00% of monthly salary but not more than 50.00% of his net monthly salary in the EISP. Upon retirement, an employee who has also availed of the EISP shall receive an additional benefit from the Plan plus a return of his investment in EISP plus related interests.

The Parent Company made additional contributions amounting to ₱12.66 million and ₱12.77 million to the EISP in 2012 and 2011, respectively. This amount was included in 'Compensation and fringe benefits'.

25. Lease Contracts

The Parent Company leases the premises occupied by some of its branches including those of its subsidiaries for periods ranging from 2 to 10 years, renewable upon mutual agreement of the parties. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% to 10.00%.

Rent expense charged against current operations (included in 'Occupancy and other equipment-related costs' in the statements of income) amounted to ₱270.67 million in 2012, ₱244.01 million in 2011 and ₱255.19 million in 2010 for the Group, of which ₱231.17 million in 2012, ₱208.43 million in 2011 and ₱218.62 million in 2010, was incurred by the Parent Company. As of December 31, 2012 and 2011, the Group had no lease arrangements with contingent provisions.

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

	Consolidated		Parent Company	
	December 31		December 31	
	2012	2011	**2012**	2011
Within one year	**₱183,272**	₱210,613	**₱156,303**	₱177,324
Beyond one year but not more than five years	**282,657**	370,600	**248,855**	323,149
Beyond five years	**10,787**	20,476	**7,479**	12,238
	₱476,716	₱601,689	**₱412,637**	₱512,711

The Group has entered into commercial property leases on its investment properties and available office spaces. Rental income included in 'Miscellaneous income' in the statements of income of the Group in 2012, 2011 and 2010 amounted to ₱142.50 million, ₱118.80 million and ₱115.94 million, respectively, of which ₱135.75 million, ₱107.01 million and ₱115.85 million, respectively, pertain to the Parent Company (see Note 23).

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

	Consolidated		Parent Company	
	December 31		December 31	
	2012	2011	**2012**	2011
Within one year	**₱47,637**	₱70,710	**₱46,529**	₱63,619
Beyond one year but not more than five years	**61,373**	114,211	**61,373**	105,937
	₱109,010	₱184,921	**₱107,902**	₱169,556

26. Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Increase in aggregate reserve for life policies	**₱805,884**	₱717,007	₱513,858	**₱–**	₱–	₱–
Commissions	**400,074**	306,880	181,683	**107,633**	79,621	55,107
Advertising	**359,334**	172,311	122,459	**356,814**	167,983	112,189
Insurance	**321,952**	312,616	330,569	**314,435**	305,589	323,224
Policyholder benefits and claim benefits	**285,050**	203,884	198,441	**–**	–	–
Information technology expenses (Note 30)	**203,773**	151,490	113,858	**202,561**	150,197	111,137
Management and professional fees	**187,282**	131,116	108,761	**139,042**	116,192	98,380
Repairs and maintenance	**132,969**	228,844	238,481	**106,465**	206,877	225,281
Stationery and office supplies	**121,458**	124,474	86,769	**110,652**	85,320	78,194
Legal/litigation/assets acquired (Note 11)	**111,821**	40,527	88,751	**110,579**	38,876	85,155
Fuel and lubricants	**78,044**	89,161	75,858	**75,990**	85,569	74,506
Postage, telephone, cable	**75,871**	67,521	57,552	**58,429**	50,901	46,363
Entertainment, amusement and recreation (EAR) (Note 27)	**72,043**	76,387	84,323	**61,264**	67,812	73,172
Traveling expenses	**65,203**	50,476	42,141	**48,501**	36,914	26,530
Brokers fees and charges	**43,582**	38,462	38,418	**43,566**	30,730	8,091
Donations	**34,182**	30,776	8,168	**34,137**	36,914	26,530
Philippine Clearing House Corporation processing fee	**20,476**	21,159	19,909	**19,490**	20,470	19,857
Membership fees	**19,695**	13,957	12,442	**16,205**	10,586	9,827
Other expenses	**346,740**	119,048	69,456	**206,074**	83,832	54,134
	3,685,433	2,896,096	2,391,897	**2,011,837**	1,574,383	1,427,677
Miscellaneous expense attributable to the disposal group (Note 13)	**30,476**	42,984	83,149	**–**	–	–
	₱3,715,909	₱2,939,080	₱2,475,046	**₱2,011,837**	₱1,574,383	₱1,427,677

Other expenses include finance charges, periodicals and magazines, fees on cash card, other occupancy expenses, other equipment expenses, freight expenses, and appraisal expenses.

27. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its domestic banking subsidiary 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 (GRT) and documentary stamp taxes.

Income taxes include the corporate income tax, discussed below, and final tax paid at the rate of 20.00%, which represents final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

Provision for income tax consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Current						
RCIT/MCIT	**₱134,937**	₱127,237	₱95,556	**₱56,644**	₱40,708	₱38,405
Final	**456,543**	336,985	513,656	**423,418**	325,987	503,914
Deferred	**(70,178)**	4,949	113	**–**	–	–
	521,302	469,171	609,325	**480,062**	366,695	542,319
Provision for income tax attributable to the disposal group (Note 13)	**33,543**	33,864	19,636	**–**	–	–
	₱554,845	₱503,035	₱628,961	**₱480,062**	₱366,695	₱542,319

Current tax regulations provides that the RCIT rate shall be 30.00%. In addition, the allowable interest expense shall be reduced by 33.00% of interest subjected to final tax. RA No. 9337 also provides for the change in GRT rate from 5.00% to 7.00%.

Under the regulations, FCDU offshore income (income from nonresidents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Income derived by the FCDU from foreign currency transactions with nonresidents, OBUs and local commercial banks including branches of foreign banks authorized by the BSP to transact business with FCDUs and other depository banks under the expanded foreign currency deposit system 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% gross income tax.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on enacted laws of the countries where they operate.

Current rax regulation provides that starting July 1, 2008, the optional standard deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. From 2010 to 2012 RCIT computation, the Parent Company elected to claim itemized expense deductions instead of the OSD.

Current tax regulations provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR expenses are included under 'Miscellaneous expense' in the statement of income (see Note 26).

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of the 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, NOLCO is allowed as a deduction from taxable income in the next three years from the date of inception.

NOLCO is broken down as follows:

	Consolidated			
Inception Year	Amount	Used/Expired	Balance	Expiry Year
2009	₱1,373,146	₱1,373,146	₱–	2012
2010	342,814	20,336	322,478	2013
2011	161,020	–	161,020	2014
2012	75,408	–	75,408	2015
	₱1,952,388	₱1,393,482	₱558,906	

	Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year
2009	₱1,195,308	₱1,195,308	₱–	2012
2010	204,752	–	204,752	2013
2011	76,201	–	76,201	2014
	₱1,476,261	₱1,195,308	₱280,953	

Details of the MCIT follow:

	Consolidated			
Inception Year	Amount	Used/Expired	Balance	Expiry Year
2009	₱20,396	₱20,396	₱–	2012
2010	39,612	1,240	38,372	2013
2011	42,553	1,642	40,911	2014
2012	58,854	–	58,854	2015
	₱161,415	₱23,278	₱138,137	

	Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year
2009	₱16,215	₱16,215	₱–	2012
2010	38,032	–	38,032	2013
2011	39,794	–	39,794	2014
2012	56,466	–	56,466	2015
	₱150,507	₱16,215	₱134,292	

The components of net deferred tax liability of the Group follow:

	Consolidated		Parent Company	
	December 31		December 31	
	2012	2011	**2012**	2011
Deferred tax liability on:				
Revaluation increment on property and equipment	**₱736,436**	₱635,293	**₱736,436**	₱627,116
Excess of fair value over book value of investment properties upon initial measurement at fair value	**433,916**	477,240	**432,403**	477,240
Positive fair value of derivatives	**42,096**	55,944	**42,096**	55,944
Net retirement asset	**41,301**	54,605	**41,301**	54,605
Unrealized gains on AFS investments	**597**	8,917	**570**	8,918
Others	**42,322**	21,268	**40,256**	20,724
	1,296,668	1,253,267	**1,293,062**	1,244,547
Deferred tax asset on:				
Allowance for credit and impairment losses	**552,779**	743,814	**550,193**	743,814
NOLCO	**84,286**	–	**84,286**	–
Accumulated depreciation - investment property	**59,059**	61,091	**59,059**	61,091
Negative fair value of derivatives	**31,490**	26,279	**31,490**	26,279
Others	**58,624**	4,613	**58,312**	4,613
	786,238	835,797	**783,340**	835,797
Net deferred tax liability	**₱510,430**	₱417,470	**₱509,722**	₱408,750

Components of net deferred tax assets of the Group follow:

	Consolidated	
	December 31	
	2012	2011
Deferred tax asset on:		
Allowance for credit and impairment losses	**₱86,586**	₱32,608
NOLCO	**30,559**	25,299
Accumulated depreciation - investment property	**2,362**	2,018
Unamortized past service costs	**1,049**	1,315
MCIT	–	2,532
Others	**498**	335
	121,054	64,107
Deferred tax liability on:		
Excess of fair value over book value of investment properties upon initial measurement at fair value	**12,580**	14,046
Revaluation increment on property and equipment	**8,177**	–
Unrealized gain on AFS investments	**1,622**	4,198
Net retirement asset	**663**	337
Leasing income differential between finance and operating lease method	–	1,819
Others	–	10,135
	23,042	30,535
Net deferred tax asset from continuing operations	**₱98,012**	₱33,572
Net deferred tax asset attribute to disposal group classified as held-for-sale included in other asset (Note 13)	–	36,957
Net deferred tax assets	**₱98,012**	₱70,529

Movements in deferred tax liability pertaining to revaluation increment on property and equipment and unrealized gains on AFS investments were charged directly to OCI.

The Group and Parent Company did not recognize deferred tax assets on the following temporary differences:

	Consolidated		Parent Company	
	December 31		December 31	
	2012	2011	**2012**	2011
NOLCO	**₱9,320**	₱1,803,605	**₱–**	₱1,544,288
Allowance for credit and impairment losses	**3,282,854**	1,217,799	**3,214,776**	1,185,047
Unamortized past service cost	**828,178**	666,278	**828,178**	664,637
MCIT	**138,137**	97,101	**134,292**	91,958
Unrealized foreign exchange loss	**–**	14,537	**–**	–
Accrued expenses	**–**	–	**–**	–
Negative fair value of derivatives	**–**	–	**–**	–
Unrealized loss on AFS investments	**–**	–	**–**	–
Others	**–**	25,817	**–**	–
	₱4,258,489	₱3,825,137	**₱4,177,246**	₱3,485,930

The Group believes that it is highly probable that these temporary differences will not be realized in the future.

A reconciliation of the applicable statutory income tax to the effective income tax rate follows:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
Tax-exempt and tax-paid income	**(25.02)**	(28.53)	(23.89)	**(22.46)**	(26.85)	(27.86)
Nondeductible expenses	**20.72**	20.20	35.02	**19.74**	20.12	43.03
Unrecognized deferred tax assets	**9.93**	11.91	4.32	**8.28**	10.81	6.21
FCDU income before tax	**(15.49)**	(9.15)	(13.34)	**(15.16)**	(9.90)	(17.72)
Others - net	**2.45**	(1.11)	0.50	**–**	0.52	0.40
Effective income tax rate	**22.59**	23.32	32.61	**20.40**	24.70	33.70
Tax effect of income from disposal group classified as held-for-sale	**1.45**	1.68	1.02	**–**	–	–
	24.04%	25.00%	33.63%	**20.40%**	24.70%	33.70%

28. Trust Operations

Securities and other assets (other than deposits) held by the Parent Company in fiduciary or agency capacity for its customers are not included in the statements of financial position since these are not assets of the Group and the Parent Company.

Government securities included under 'AFS investments'with face value of ₱449.37 million, ₱360.61 million and ₱250.00 million as of December 31, 2012, 2011 and 2010, respectively, are deposited with the BSP in compliance with the current banking regulations relative to the Parent Company's trust functions (see Note 7).

An appropriation of 10.00% of the Parent Company's income from trust operations is set aside annually as surplus reserve to absorb any losses that may arise from its trust functions. The accumulated reserve should not exceed 20% of authorized capital stock. Prior to 2008, surplus reserve for trust operations reached 20.00% of the Parent Company's authorized capital stock thus, no reclassification to reserve was made from 2005 to 2007. However, due to the increase in the authorized capital stock of the Parent Company in 2008, an appropriation of 10.00% of the Parent Company's income from trust operations were made in 2012 and 2011.

29. Segment Information

For management purposes, the Group is organized into three business segments based on their products and services. Management, especially the chief operating decision-makers, monitors the operating results of business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operating profit or loss in the consolidated financial statements. The Group does not experience any seasonality in its business segments.

The Group's reportable segments follow:

- Banking
  a) Commercial - handles services that relate to lending, deposit-taking, treasury operations, corporate and consumer banking, credit cards, special assets and cash management, fund and clearing services.
  b) Thrift - caters the needs of individual consumers and small and middle-market businesses which include key products such as deposit taking, investments, payment and remittances.
- Insurance - provides services through life insurance policies on which premiums are earned.
- Others - manages revenues principally generated from holding and leasing services provided by the Group.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Operating Segments

Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are reflected in the performance of each segment. The following tables present revenue and income information of operating segments presented in accordance with PFRS for the years ended December 31, 2012, 2011 and 2010 and segment assets and liabilities as of December 31, 2012 and 2011 and January 1, 2011:

	For the year ended December 31, 2012								
	Banking								
	Commercial								
	Philippines	China and Hong Kong	Thrift	Insurance	Others	Eliminations	Consolidated	Operating segment attributed to disposal group held-for-sale (Note 13)	Operating segment including disposal group held-for-sale
Interest income									
Third party	₱8,191,431	₱487,792	₱234,546	₱290,588	₱27,865	₱–	₱9,232,222	₱226,399	₱9,458,621
Inter-segment	–	8146	462	210	102	(8,920)	–	–	–
Interest income	8,191,431	495,938	235,008	290,798	27,967	(8,920)	9,232,222	226,399	9,458,621
Interest expense	2,319,455	90,420	39,069	6,944	3,125	(9,059)	2,449,954	35,167	2,485,121
Net interest income	5,871,976	405,518	195,939	283,854	24,842	139	6,782,268	191,232	6,973,500
Non-interest income	4,240,215	138,905	83,930	1,478,967	56,063	(26,371)	5,971,709	10,709	5,982,418
Total operating income	10,112,191	544,423	279,869	1,762,821	80,905	(26,232)	12,753,977	201,941	12,955,918
Compensation and fringe benefits	2,237,010	167,205	80,605	117,372	27,598	–	2,629,790	57,356	2,687,146
Provision for credit and impairment losses	1,548,204	174,709	57,474	–	3,067	–	1,783,454	2,360	1,785,814
Depreciation and amortization	349,084	10,229	23,177	13,161	1,688	–	397,339	9	397,348
Miscellaneous	3,624,837	178,482	100,113	1,501,172	53,068	(26,749)	5,430,923	56,524	5,487,447
Loss on sale of OBHI	–	–	–	–	–	–	–	290,242	290,242
Total operating expenses	7,759,135	530,625	261,369	1,631,705	85,421	(26,749)	10,241,506	406,491	10,647,997
Income before income tax	2,353,056	13,798	18,500	131,116	(4,516)	517	2,512,471	(204,550)	2,307,921
Provision for income tax	480,062	(7,395)	13,663	27,546	7,426	–	521,302	33,543	554,845
Net income	₱1,872,994	₱21,193	₱4,837	₱103,570	(₱11,942)	₱517	₱1,991,169	(₱238,093)	₱1,753,076
	As of December 31, 2012								
Segment assets	₱174,410,373	₱16,306,505	₱4,208,076	₱9,856,043	₱2,202,643	(₱9,206,437)	₱197,777,203	₱–	₱197,777,203
Segment liabilities	₱151,923,531	₱8,501,892	₱3,224,485	₱8,315,982	₱476,752	(₱5,171,836)	₱167,270,806	₱–	₱167,270,806

	Banking								
	Commercial								
	Philippines	China and Hong Kong	Thrift	Insurance	Others	Eliminations	Consolidated	Operating segment attributed to disposal group held-for-sale (Note 13)	Operating segment including disposal group held-for-sale
	For the year ended December 31, 2011 (As restated - Notes 2 and 35)								
Interest income									
Third party	₱8,479,087	₱462,112	₱213,448	₱251,215	₱24,509	₱–	₱9,430,371	₱309,701	₱9,740,072
Inter-segment	22,965	1,041	502	–	521	(25,044)	(15)	15	–
	8,502,052	463,153	213,950	251,215	25,030	(25,044)	9,430,356	309,716	9,740,072
Interest expense	2,744,798	63,257	37,407	8,224	1,000	(25,041)	2,829,645	74,001	2,903,646
Net interest income	5,757,254	399,896	176,543	242,991	24,030	(3)	6,600,711	235,715	6,836,426
Non-interest income	1,998,876	178,806	53,996	1,207,108	59,002	(24,831)	3,472,957	25,463	3,498,420
Total operating income	7,756,130	578,702	230,539	1,450,099	83,032	(24,834)	10,073,668	261,178	10,334,846
Compensation and fringe benefits	2,456,034	164,972	81,275	96,503	28,262	–	2,827,046	82,413	2,909,459
Depreciation and amortization	384,323	9,677	25,215	12,172	1,433	–	432,820	606	433,426
Provision for credit and impairment losses	350,778	(2,844)	16,859	–	(2,459)	–	362,334	5,975	368,309
Miscellaneous	3,080,413	85,967	94,649	1,255,347	29,208	(16,296)	4,529,288	82,129	4,611,417
Total operating expenses	6,271,548	257,772	217,998	1,364,022	56,444	(16,296)	8,151,488	171,123	8,322,611
Income before income tax	1,484,582	320,930	12,541	86,077	26,588	(8,538)	1,922,180	90,055	2,012,235
Provision for income tax	366,695	54,759	11,357	22,410	13,950	–	469,171	33,864	503,035
Net income	₱1,117,887	₱266,171	₱1,184	₱63,667	₱12,638	(₱8,538)	₱1,453,009	₱56,191	₱1,509,200
	As of December 31, 2011 (As restated - Notes 2 and 35)								
Segment assets	₱173,193,006	₱18,511,532	₱3,955,544	₱6,177,255	₱1,012,928	(₱7,740,874)	₱195,109,391	₱7,422,682	₱202,532,073
Segment liabilities	₱151,539,995	₱10,199,330	₱2,947,872	₱5,057,374	₱290,954	(₱3,645,779)	₱166,389,746	₱6,017,084	₱172,406,832

For the year ended December 31, 2010

	Banking								
	Commercial								
	Philippines	China and Hong Kong	Thrift	Insurance	Others	Eliminations	Consolidated	Operating segment attributed to disposal group held-for-sale (Note 13)	Operating segment including disposal group held-for-sale
Interest income									
Third party	₱8,870,898	₱344,920	₱199,616	₱208,500	₱10,069	₱–	₱9,634,003	₱360,427	₱9,994,430
Inter-segment	421	13,280	1,118	41	558	(17,061)	(1,643)	1,643	–
	8,871,319	358,200	200,734	208,541	10,627	(17,061)	9,632,360	362,070	9,994,430
Interest expense	2,781,463	30,311	41,841	4,520	–	(17,061)	2,841,074	94,805	2,935,879
Net interest income	6,089,856	327,889	158,893	204,021	10,627	–	6,791,286	267,265	7,058,551
Non-interest income	2,544,450	122,686	36,228	857,512	62,342	(14,542)	3,608,676	17,382	3,626,058
Total operating income	8,634,306	450,575	195,121	1,061,533	72,969	(14,542)	10,399,962	284,647	10,684,609
Compensation and fringe benefits	2,429,226	150,292	67,596	93,055	27,962	–	2,768,131	89,439	2,857,570
Provision for credit and impairment losses	1,211,263	21,988	13,098	–	6,378	–	1,252,727	10,307	1,263,034
Depreciation and amortization	417,895	10,774	18,964	11,191	1,225	–	460,049	594	460,643
Miscellaneous	2,966,783	40,809	81,434	945,803	27,319	(15,730)	4,046,418	129,581	4,175,999
Total operating expenses	7,025,167	223,863	181,092	1,050,049	62,884	(15,730)	8,527,325	229,921	8,757,246
Income before income tax	1,609,139	226,712	14,029	11,484	10,085	1,188	1,872,637	54,726	1,927,363
Provision for income tax	542,319	32,569	10,790	19,496	4,151	–	609,325	19,636	628,961
Net income	₱1,066,820	₱194,143	₱3,239	(₱8,012)	₱5,934	₱1,188	₱1,263,312	₱35,090	₱1,298,402
					As of January 1, 2011				
Segment assets	₱162,435,870	₱15,821,807	₱3,508,331	₱3,528,431	₱884,480	(₱5,064,067)	₱181,114,852	₱8,335,957	₱189,450,809
Segment liabilities	₱144,218,925	₱7,767,769	₱2,526,010	₱2,852,498	₱172,103	(₱970,221)	₱156,567,084	₱6,965,387	₱163,532,471

Management further evaluates operating businesses under Commercial Banking - Philippines according to the nature of services provided and the different markets served with segment representing a strategic business unit. The Parent Company's business segments follow:

- Consumer banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts and fund transfer facilities;
- Corporate banking - principally handling loans and other credit facilities and deposit and current account for corporate and institutional customers;
- Treasury - principally providing money market, trading and treasury services, as well as the management of the Parent Company's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking;
- Credit cards department - principally providing individual customers' credit card services and facilities; and
- Special assets group - principally managing real and other properties acquired from loan settlement and other foreclosure processes.

	2012						
	Consumer Banking	Corporate Banking	Treasury	Special Assets Group	Credit Cards Department	Others	Total
Interest income	₱383,447	₱4,753,011	₱2,336,857	₱59,476	₱537,919	₱120,721	₱8,191,431
Interest expense	85,852	1,067,800	988,402	13,317	120,438	43,646	2,319,455
Net interest income	297,595	3,685,211	1,348,455	46,159	417,481	77,075	5,871,976
Non-interest income	5,046	881,926	2,769,188	258,609	152,397	173,049	4,240,215
Total operating income	302,641	4,567,137	4,117,643	304,768	569,878	250,124	10,112,191
Compensation and fringe benefits	66,950	1,010,338	910,901	67,421	126,068	55,332	2,237,010
Provision for credit and impairment losses	–	1,496,137	36,010	16,057	–	–	1,548,204
Depreciation and amortization	9,715	146,611	132,181	34,253	18,294	8,030	349,084
Miscellaneous	112,740	1,660,194	1,419,196	100,521	204,958	127,228	3,624,837
Total operating expenses	189,405	4,313,280	2,498,288	218,252	349,320	190,590	7,759,135
Income before income tax	₱113,236	₱253,857	₱1,619,355	₱86,516	₱220,558	₱59,534	2,353,056
Provision for income tax							480,062
Net income							₱1,872,994

	2011 (As restated - Notes 2 and 35)						
	Consumer Banking	Corporate Banking	Treasury	Credit Cards Department	Special Assets Group	Others	Total
Interest income	₱471,874	₱4,074,037	₱3,410,024	₱313,271	₱87,398	₱145,448	₱8,502,052
Interest expense	130,372	1,125,778	1,338,021	86,405	24,106	40,116	2,744,798
Net interest income	341,502	2,948,259	2,072,003	226,866	63,292	105,332	5,757,254
Non-interest income	6,249	311,776	1,001,563	303,907	178,178	197,203	1,998,876
Total operating income	347,751	3,260,035	3,073,566	530,773	241,470	302,535	7,756,130
Compensation and fringe benefits	110,121	1,032,265	973,300	168,079	76,466	95,803	2,456,034
Depreciation and amortization	16,030	150,260	141,677	24,466	37,945	13,945	384,323
Provision for credit and impairment losses	852	213,789	7,529	114,989	12,878	741	350,778
Miscellaneous	139,832	1,297,689	1,207,418	198,190	88,102	149,182	3,080,413
Total operating expenses	266,835	2,694,003	2,329,924	505,724	215,391	259,671	6,271,548
Income before income tax	₱80,916	₱566,032	₱743,642	₱25,049	₱26,079	₱42,864	1,484,582
Provision for income tax							366,695
Net income							₱1,117,887

	2010						
	Consumer Banking	Corporate Banking	Treasury	Credit Cards Department	Special Assets Group	Others	Total
Interest income	₱252,962	₱3,887,229	₱4,440,612	₱242,458	₱48,058	₱–	₱8,871,319
Interest expense	69,068	1,057,193	1,576,320	65,833	13,049	–	2,781,463
Net interest income	183,894	2,830,036	2,864,292	176,625	35,009	–	6,089,856
Non-interest income	114,008	81,777	1,768,585	93,057	275,870	211,153	2,544,450
Total operating income	297,902	2,911,813	4,632,877	269,682	310,879	211,153	8,634,306
Compensation and fringe benefits	78,090	844,587	1,321,290	71,396	68,931	44,932	2,429,226
Provision for credit and impairment losses	38,937	421,129	658,823	35,600	34,370	22,404	1,211,263
Depreciation and amortization	13,433	145,293	227,299	12,282	11,858	7,730	417,895
Miscellaneous	95,371	1,031,484	1,613,675	87,195	84,184	54,874	2,966,783
Total operating expenses	225,831	2,442,493	3,821,087	206,473	199,343	129,940	7,025,167
Income before income tax	₱72,071	₱469,320	₱811,790	₱63,209	₱111,536	₱81,213	1,609,139
Provision for income tax							542,319
Net income							₱1,066,820

Non-interest income consists of commission and handling charges, trading and investment securities gain, gain on acquisition of investment properties, foreign exchange gains-net, among others.

Miscellaneous expenses consist of commissions, advertising, insurance, occupancy, taxes and licenses among others (see Notes 25, 26 and 27).

Geographical Information

The following details refer to revenues (interest income) from external customers for the years ended December 31, 2012, 2011 and 2010, and other non-current assets held in the Group and the Parent Company's country of domicile and foreign countries as of December 31, 2012 and 2011 and January 1, 2011:

	For year ended December 31, 2012				
	Philippines	**China and Hong Kong**	**United Kingdom**	**United States of America**	**Total**
Revenues from external customers	**₱8,717,847**	**₱495,938**	**₱8,474**	**₱236,362**	**₱9,458,621**

	As of December 31, 2012				
Property and equipment	**₱4,625,903**	**₱188,090**	**₱1,893**	**₱310**	**₱4,816,196**
Investment properties	**3,827,636**	**137,872**	**–**	**5,896**	**3,971,404**
	₱8,453,539	**₱325,962**	**₱1,893**	**₱6,206**	**₱8,787,600**

	For year ended December 31, 2011				
	Philippines	China and Hong Kong	United Kingdom	United States of America	Total
Revenues from external customers	₱8,949,827	₱463,153	₱8,696	₱318,396	₱9,740,072

	As of December 31, 2011				
Property and equipment	₱4,334,519	₱202,116	₱3,068	₱745	₱4,540,448
Investment properties	4,061,009	256,850	–	–	4,317,859
	₱8,395,528	₱458,966	₱3,068	₱745	₱8,858,307

	For year ended December 31, 2010				
	Philippines	China and Hong Kong	United Kingdom	United States of America	Total
Revenues from external customers	₱9,257,537	₱358,200	₱7,228	₱371,465	₱9,994,430

	As of January 1, 2011				
Property and equipment	₱4,446,061	₱209,367	₱3,931	₱1,299	₱4,660,658
Investment properties	4,311,352	225,052	–	–	4,536,404
	₱8,757,413	₱434,419	₱3,931	₱1,299	₱9,197,062

In 2012, 2011 and 2010, the Group and the Parent Company did not receive 10.00% of the total revenues from a single customer.

30. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries or other related parties. Related parties may be individuals or corporate entities.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

In the ordinary course of business, the Group has loan transactions, credit accommodations and guarantees with investees, and with certain directors, officers, stockholders and related interests (DOSRI). Under the existing policies of the Group, these DOSRI transactions are made substantially on the same terms as loans to other individuals and businesses of comparable risks. The amount of DOSRI transactions to individual DOSRI, of which 70.00% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their investments in the Parent Company and/or any of its subsidiaries, subject to the same regulations. In the aggregate, loans to DOSRI exclusive of nonrisk accounts generally should not exceed the respective equity or 15.00% of the total loan portfolio, whichever is lower, of the Parent Company and/or any of its subsidiaries subject to the same regulations; provided that the total unsecured DOSRI transactions shall not exceed the lower of 30.00% of aggregate ceiling or outstanding DOSRI transactions.

Other transactions with associates consist of purchase of insurance premiums, purchase and sale of investment securities, lease of office premises, and use of certain facilities.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The Group considers any of the following as related interest:

- Spouse or relative within the first cosangunity or affinity of a director, officer or stockholder of the Group;
- Partnership of which a director, officer or stockholder of the Group or a general partner.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular, and new DOSRI loans, other credit accommodations granted under said circular as of December 31, 2012, 2011 and 2010:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Total Outstanding DOSRI Accounts	**₱2,065,642**	₱3,640,304	₱4,192,062	**₱2,065,642**	₱3,640,304	₱4,192,062
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**1.83%**	3.05%	3.98%	**2.05%**	3.62%	4.72%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**1.83%**	3.05%	3.98%	**2.05%**	3.62%	4.72%
Percent of DOSRI accounts to total loans	**1.83%**	3.05%	3.98%	**2.05%**	3.62%	4.72%

(Forward)

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.04%**	0.10%	2.07%	**0.04%**	0.10%	2.07%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	0.00%	**0.00%**	0.00%	0.00%
Percent of nonaccruing DOSRI accounts tototal DOSRI accounts	**0.00%**	0.00%	0.00%	**0.00%**	0.00%	0.00%

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, the total outstanding exposures to each of the Parent Company's subsidiaries and affiliates shall not exceed 10.00% of banks net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective February 15, 2007.

As of December 31, 2012, DOSRI loans amounting to ₱0.12 billion and ₱0.25 billion are secured by hold-out on deposits and government securities, respectively, and as of December 31, 2011, DOSRI loans amounting to ₱0.90 billion are secured by government securities. These loans are therefore considered as non-risk assets. Non-risk DOSRI loans are not covered by the ceiling on DOSRI prescribed by the BSP.

Transactions with subsidiaries have been eliminated in the consolidated financial statements. Other related parties include those transactions with entities under common control. These are conducted in the normal course of business, will be settled in cash and at arms-length transactions. Details on related party transactions follow.

	December 31, 2012		
Category	**Amount / Volume**	**Outstanding Balances**	**Terms and Conditions/Nature**
Subsidiaries:			
Deposit liabilities		**₱1.04 billion**	With annual fixed interest rates ranging from 0.65% to 1.93% including time deposits with maturities from 30 days to 365 days
Due from other banks		**931.85 million**	With annual fixed interest rates ranging from 0.01% to 4.50% which includes time deposits with maturities of up to 90 days
Derivative assets (Financial assets at FVPL)		**1.32 million**	Oustanding forward transactions with maturities of up to 5 months
Rental income	**₱15.37 million**		Income from leasing agreements with various lease terms (see Note 25)
Interest expense	**5.42 million**		Interest expense on deposit liabilities
Unrealized trading gains	**1.35 million**		Positive fair value of derivative financial instruments
Information technology expense	**₱1.20 million**		Share in information technology expense of subsidiaries
Interest income	**0.38 million**		Interest income on due from other banks

Category	Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
	December 31, 2012		
Other related parties:			
Receivables from customers		**₱5.56 billion**	₱1.97 billion secured by hold-out on deposit, government securities, real estate and mortgage trust indenture and ₱3.59 billion unsecured, no impairment with interest rate ranging from 3.23% to 10.00% with maturities from1 year to 6 years
Deposit liabilities		**5.54 billion**	With annual fixed interest rates ranging from 0.65% to 1.93% including time deposits with maturities from 30 days to 365 days
Interest income	**₱526.43 million**		Interest income on receivables from customers
Interest expense	**137.19 million**		Interest expense on deposit liabilities
Rental income	**33.85 million**		Income from leasing agreements with various lease terms (see Note 25)
Gain on sale on investments properties	**14.20 million**		Gain on sale of investment property transaction
Rent expense	**4.12 million**		Expense from leasing agreements with various lease terms (see Note 25)
Loan releases	**2.08 billion**		Loan drawdowns
Loan collections	**3.11 billion**		Settlement of loans and interest

Category	Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
	December 31, 2011 (As restated - Notes 2 and 35)		
Subsidiaries:			
Deposit liabilities		₱1.68 billion	With annual fixed interest rates ranging from 0.65% to 1.75% including time deposits and maturities from 30 days to 365 days
Due from other banks		342.42 million	With annual fixed interest rates ranging from 0.01% to 4.50% which includes time deposits with maturities of up to 90 days
Interbank loans receivable		248.77 million	With annual fixed interest rate of 0.40% with maturities up to 90 days
Bills payables		44.45 million	With annual fixed interest rate of 0.40% with maturities of 91 days, unsecured
Derivative liabilities		6.89 million	Oustanding forward transactions with maturities of up to 5 months
Interest income	₱23.66 million		Interest income on interbank loans receivable
Interest expense	23.45 million		Interest expense on bills payable
Service charges, fees and commissions	9.55 million		Income on commissions and transactional fees
Unrealized trading loss	6.81 million		Negative fair value of derivative financial instruments
Rental income	6.61 million		Income from leasing agreements with various lease terms (see Note 25)

Category	December 31, 2011 (As restated - Notes 2 and 35) Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
Interest expense	₱1.35 million		Interest expense on deposit liabilities
Information technology expense	1.20 million		Share in information technology expense of subsidiaries
Interest income	0.28 million		Interest income on due from other banks
Other related parties:			
Receivables from customers		₱6.58 billion	₱4.37 billion secured by government securities, real estate and mortgage trust indenture and ₱2.21 billion unsecured , no impairment, with interest rates ranging from 5.81% to 11.32% with maturities of up to 7 years
Deposit liabilities		4.95 million	With annual fixed interest rates ranging from 0.65% to 1.75% including time deposits with maturities from 30 days to 365 days
Interest income	280.12 million		Interest income on receivables from customers
Interest expense	8.95 million		Interest expense on deposit liabilities
Loan releases	1.46 billion		Loan drawdowns
Loan collections	1.53 billion		Settlement of loans and interest

Category	December 31, 2010 Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
Subsidiaries:			
Deposit liabilities		₱730.30 million	With annual fixed interest rates ranging from 0.65% to 1.75% including time deposits and maturities from 30 days to 365 days
Due from other banks		253.52 million	With annual fixed interest rates ranging from 0.01% to 4.50% which includes time deposits with maturities of up to 90 days
Interbank loans receivable		247.51 million	With annual fixed interest rate of 4% with maturities up to 90 days
Bills payable		42.75 million	With annual fixed interest rate of 0.50% with maturities of 91 days, unsecured
Interest expense	₱17.06 million		Interest expense on deposit liabilities
Interest expense	1.64 million		Interest expense on bills payable
Interest income	5.02 million		Interest income on interbank loans receivable
Interest income	₱0.20 million		Interest income on due from other banks
Service charges, fees and commissions	2.44 million		Income on commissions and transactional fees
Unrealized trading loss	6.81 million		Negative fair value of derivative financial instruments
Rental income	6.05 million		Income from leasing agreements with various lease terms (see Note 25)
Information technology expense	1.20 million		Share in information technology expense of subsidiaries

Category	December 31, 2010 Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
Other related parties:			
Receivables from customers		₱6.61 billion	₱4.40 billion secured by hold-out on deposit, government securities, real estate and mortgage trust indenture and ₱2.21 billion unsecured , no impairment, with interest rates ranging from 6.50% to 11.32% with maturities of up to 7 years
Deposit liabilities		7.14 billion	With annual fixed interest rates ranging from 0.65% to 1.75% including time deposits with maturities from 30 days to 365 days
Interest income	374.55 million		Interest income on receivables from customers
Interest expense	156.87 million		Interest expense on deposit liabilities
Loan releases	2.13 billion		Loan drawdowns
Loan collections	497.65 million		Settlement of loans and interest

The remuneration of directors and other members of key management personnel follow:

	Consolidated			**Parent Company**		
	2012	2011	2010	**2012**	2011	2010
Short-term employee benefits	**₱203,806**	₱235,185	₱210,946	**₱123,472**	₱127,290	₱154,277
Post-employment benefits	**248,659**	643,943	686,886	**248,659**	643,526	685,129
	₱452,465	₱879,128	₱897,832	**₱372,131**	₱770,816	₱839,406

Transactions with retirement plans

Management of the retirement funds of the Group and the Parent Company is handled by the Parent Company's Trust and Investments Division. As of December 31, 2012, the fair value of the plan assets in the retirement funds amounted to ₱859.81 million and ₱806.46 million for the Group and for the Parent Company, respectively.

Relevant information on statement of financial position at carrying values of the Group and of the Parent Company's retirement funds as of December 31, 2012 are as follows:

	Consolidated	Parent Company
Investment securities	₱492,530	₱465,789
Deposits in other bank	325,997	302,093
Deposit in the Parent Company	757	742
Loans and other receivables	40,529	37,832
Total Fund Assets	₱859,813	₱806,456

	Consolidated	Parent Company
Trust Fees Payable	₱90	₱–
Total Fund Liability	₱90	₱–

As of December 31, 2012, the retirement funds of the Group and the Parent Company have no investment in any equity or debt instruments issued by the Group.

As of December 31, 2012, investment securities include government, private debt and equity securities. Deposits with other bank pertain to Special Deposits (SDA) placement with BSP and other bank amounting to ₱276.00 million and ₱50.00 million, respectively, for the Group, and ₱252.09 million and ₱50.00 million, respectively, for the Parent Company. Interest income on deposit with the Parent Company amounted to ₱0.03 million, both for the Group and the Parent Company. Trust fees earned by the Parent Company from the retirement funds amounted to ₱0.09 million and ₱0.01 million for the Group and the Parent Company, respectively, in 2012. Investments are approved by an authorized fund manager or officer of the Parent Company.

31. Margin of Solvency

Under the Insurance Code, a life insurance company doing business in the Philippines shall maintain at all times a margin of solvency equal to ₱0.50 million or ₱2.00 per thousand of the total amount of insurance in force as of the preceding calendar year in all policies (except term insurance), whichever is higher. The margin of solvency shall be the excess of the value of its admitted assets as defined under the same Code, exclusive of the minimum paid-up capital, over the amount of its liabilities, unearned premiums, and reinsurance reserves.

The final amounts of the margin of solvency can be determined only after the accounts of PLII have been examined by the IC specifically as to admitted and non-admitted assets as defined in the Insurance Code.

The estimated amounts of non-admitted assets included in the statements of financial position, which are subject to final determination by the IC follow:

	2012	2011	2010
Market revaluation	**₱567,178**	₱366,916	₱224,331
Property and equipment - net	**21,645**	26,271	28,700
Loans and receivables	**8,148**	12,376	7,174
Prepayments	**3,427**	4,001	4,231
Other assets	**10,776**	8,129	8,670
	₱611,174	₱417,693	₱273,106

32. Commitments and Contingent Assets and Liabilities

In the normal course of business, the Group has various commitments and contingent liabilities that are not presented in the accompanying financial statements. The Group does not anticipate any material losses as a result of these commitments and contingent liabilities.

The following is a summary of commitments and contingent accounts at their equivalent peso contractual amounts:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Trust department accounts (Note 28)	**₱41,838,182**	₱35,062,944	₱24,807,793	**₱41,838,182**	₱35,062,944	₱24,807,793
Unused credit card lines	**10,759,728**	21,755,220	17,013,472	**10,759,728**	21,755,220	17,013,472
Deficiency claims receivable	**5,536,733**	5,520,941	5,513,953	**5,536,733**	5,520,941	5,513,953
Unused commercial letters of credit	**5,576,364**	5,320,202	5,026,571	**5,506,718**	5,143,931	4,943,691
Inward bills for collection	**353,180**	309,033	961,198	**353,180**	302,597	934,635
Late deposits/payment received	**278,187**	314,222	489,455	**266,627**	305,485	475,053
Outward bills for collection	**264,894**	371,750	315,340	**30,414**	78,367	109,492
Outstanding guarantees issued	**323,157**	313,978	338,589	**299,071**	294,220	318,848
Confirmed export letters of credit	**2,256**	1,096	167,089	**1,026**	1,096	2,192
Others	**543,447**	609,476	557,197	**420,452**	375,963	245,768

There are pending cases for and against the Parent Company and certain subsidiaries arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from these cases will not adversely affect the financial position or results of operation of the Parent Company and certain subsidiaries.

33. Earnings Per Share

The basis of calculation for earnings per share attributable to equity holders of the Parent Company follows:

	2012	2011 (As restated - Notes 2 and 35)	2010
	(In thousands, except number of shares and EPS)		
TOTAL EARNINGS PER SHARE			
Net income attributable to equity holders of the Parent Company	**₱1,901,581**	₱1,318,494	₱1,177,462
Less dividends to preferred shares	**7,500**	7,500	7,500
a. Net income applicable to common shares	**1,894,081**	1,310,994	1,169,962
Add dividends to preferred shares	**7,500**	7,500	7,500
b. Net income applicable to common and potential common shares	**₱1,901,581**	₱1,318,494	₱1,177,462
c. Weighted average number of outstanding common shares (Note 22)	**3,252,495**	3,252,495	3,252,495
Add weighted average number of potential common shares (pertaining to convertible preferred shares)	**7,248**	7,528	8,952
d. Weighted average number of outstanding and potential common shares	**3,259,743**	3,260,023	3,261,447
Basic EPS (a/c)	**₱582.35**	₱403.07	₱359.71
EARNINGS PER SHARE FROM CONTINUING OPERATIONS			
Net income attributable to equity holders of the Parent Company	**₱1,967,723**	₱1,302,884	₱1,167,714
Less dividends to preferred shares	**7,500**	7,500	7,500
a. Net income applicable to common shares	**1,960,223**	1,295,384	1,160,214
Add dividends to preferred shares	**7,500**	7,500	7,500
b. Net income applicable to common and potential common shares	**₱1,967,723**	₱1,302,884	₱1,167,714
c. Weighted average number of outstanding common shares (Note 22)	**3,252,495**	3,252,495	3,252,495
Add weighted average number of potential common shares (pertaining to convertible preferred shares)	**7,248**	7,528	8,952
d. Weighted average number of outstanding and potential common shares	**3,259,743**	3,260,023	3,261,447
Basic EPS (a/c)	**₱602.68**	₱398.27	₱356.72

The change in accounting policy as discussed in Note 35 resulted in increase in EPS of ₱0.59 in 2011. The assumed conversion of preferred shares as a result of dividing (b) and (d) is anti-dilutive. Thus, diluted EPS is the same with basic EPS.

34. Financial Performance

The following basic ratios measure the financial performance of the Group:

	2012	2011 (As restated - Notes 2 and 35)	2010
Where average equity and average asset include revaluation increment			
Return on average equity (ROE)	**5.78%**	5.39%	5.19%
Return on average assets (ROA)	**0.88**	0.77	0.69
Net interest margin (NIM)	**3.60**	3.74	3.98
Where average equity and average asset exclude revaluation increment			
ROE	**6.11**	5.69	5.52
ROA	**0.88**	0.78	0.69
NIM	**3.60**	3.74	3.98

35. Restatement of Items in the 2011 Consolidated and Parent Financial Statements

In 2011, the Group made certain adjustments to apply the change in accounting policy on the accounting for bond exchange in accordance with PFRS. In accordance with PAS 39, if the Group were to sell more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and will then have to be reclassified as AFS investments and measured at fair value (see Notes 2 and 7).

The tables below summarize the reconciliation of previously reported and restated balances of consolidated and parent company financial statement accounts affected by the restatement as of and for the year ended December 31, 2011:

	As previously reported	Restatements/ reclassifications	As restated
Consolidated statements of financial position			
Assets			
AFS investments	₱16,733,191	₱23,598,641	₱40,331,832
Assets of disposal group classified as held-for-sale (Note 13)	7,427,680	(4,998)	7,422,682
HTM investments	21,161,409	(21,161,409)	–
Deferred tax asset	35,070	(1,498)	33,572
	₱45,357,350	₱2,430,736	₱47,788,086
Liabilities			
Deferred tax liability	₱409,062	₱8,408	₱417,470
Equity			
Equity holders of the Parent Company			
Surplus	₱16,331,157	₱1,926	₱16,333,083
Net unrealized gains on AFS investments	1,013,860	2,366,590	3,380,450
Non-controlling interest	5,404,733	53,812	5,458,545
	₱22,749,750	₱2,422,328	₱25,172,078

	As previously reported	Restatements/ reclassifications	As restated
Consolidated statement of income			
Interest income on trading and investment securities	₱2,731,327	(₱2,799)	₱2,728,528
Trading and investment securities gains - net	534,100	3,526	537,626
Foreign exchange gains - net	185,509	1,752	187,261
	₱3,450,936	₱2,479	₱3,453,415
Consolidated statement of other comprehensive income			
Changes in net unrealized gain on available-for-sale investments	₱250,875	₱2,437,000	₱2,687,875
Equity adjustment from translation	17,022	(12,153)	4,869
	₱267,897	₱2,424,847	₱2,692,744
Parent company statement of financial position			
Assets			
AFS investments	₱12,928,495	₱22,139,590	₱35,068,085
HTM investments	19,939,638	(19,939,638)	–
	₱32,868,133	₱2,199,952	₱35,068,085
Liabilities			
Deferred tax liability	₱400,340	₱8,410	₱408,750
Equity			
Surplus	₱14,421,435	₱267	₱14,421,702
Net unrealized gains on AFS investments	702,008	2,191,275	2,893,283
	₱15,123,443	₱2,191,542	₱17,314,985
Parent company statement of income			
Trading and investment securities gains - net	₱520,703	₱267	₱520,970
Parent company statement of other comprehensive income			
Changes in net unrealized gain on available-for-sale investments	₱109,211	₱2,191,275	₱2,300,486

Details of restatement in 2011 on the Group's net income attributable to equity holders of the Parent Company in the consolidated statement of income and net income in the Parent Company's statement of income are as follows:

	As previously reported	Restatements/ reclassifications	As restated
Net income attributable to equity holders of the Parent Company in the consolidated statement of income	₱1,316,568	₱1,926	₱1,318,494
Net income in the Parent Company's statement of income	1,117,620	267	1,117,887

36. Other Matters and Events After Statement of Financial Position Date

Merger of the Parent Company and PNB
On April 30, 2008 and subsequently on June 24, 2008, in a special meeting, the BOD and the stockholders owning at least two thirds (2/3) of the outstanding capital stock, respectively, of the Parent Company approved the following:

a. Merger of the Parent Company and PNB under the following terms:
   - Share swap of 140 common shares of PNB for each common share of the Parent Company
   - Share swap of 30.73 common shares of PNB for each preferred shares of the Parent Company
   - PNB will be the surviving entity
b. Issue price of the new common shares at ₱55 per share subject to BOD approval
c. Issuance of 456,885,800 common shares from the PNB's authorized but unissued capital stock
d. Plan of Merger of the Parent Company and PNB
e. Articles of Merger of the Parent Company and PNB

On December 16, 2011 and subsequently on March 6, 2012, in a special meeting, the BOD and the Stockholders owning at least two thirds (2/3) of the outstanding capital stock, respectively, of the Parent Company approved the amendments to the Plan of Merger between PNB and the Parent Company, which are as follows:

a. The exchange ratio between PNB and the Parent Company is at 130 PNB common shares for each issued common shares and 22.763 PNB common shares for each preferred shares issued by the Parent Company;
b. The PNB common shares to be issued pursuant to the merger will be at a price of seventy pesos per share (₱70.00); and
c. The effective date of the merger was set to be the first day of the month following the issuance of the Securities and Exchange Commission (SEC) of the Certificate of Merger.

The Plan of Merger will be subject to the approval of the regulators, and the tax-free merger under Section 40 (c) 2 of the National Internal Revenue Code of 1997 as a pre-condition to the effectivity of the merger be deferred provided that filing of an application for such ruling be retained.

On July 16, 2012, the PDIC Board, per Resolution No. 2012-17-177, has granted consent to the proposed merger of PNB and the Parent Company, with PNB as the surviving entity, pursuant to Sec. 21c of Republic Act 3591, as amended (PDIC Charter), subject to the following conditions:

a. Approval by the Monetary Board of the BSP and the SEC of the proposed merger;
b. The consent shall be valid for a period of six (6) months reckoned from the date the proponent banks shall have fully obtained both PDIC and BSP approvals, after which if not implemented, the proponent banks would have to secure PDIC's consent again;
c. PNB and the Parent Company shall submit a certification to PDIC, at least ten (10) banking days prior to actual date of merger, that their respective depositors and creditors have been fully notified of the (i) approved merger (ii) full implication of merger on the deposit liabilities of PNB and the Parent Company; and (iii) depositors' option to either withdraw or maintain their accounts with the merged bank;

d. PNB and the Parent Company shall submit a sworn certification to PDIC, at least ten (10) banking days prior to actual date of merger, that they have set aside sufficient funds to cover possible withdrawals by depositors upon their actual merger; and
e. Upon the conversion of the Parent Company's shares claimed by the Presidential Commission on Good Government (PCGG) or the National Government (NG) into PNB shares, the resulting PNB shares shall be identified. Upon the request of the PCGG or the NG, the claim of the PCGG or the NG shall be recorded in the stock and transfer book of PNB after the merger becomes effective.

On August 2, 2012, the BSP Monetary Board, in its Resolution No. 1270, approved the Plan of Merger and Articles of Merger of the PNB and the Parent Company, with PNB as the surviving entity, subject to the following conditions:

a. The merger shall take effect within 6 months form date of receipt of BSP approval;
b. PNB shall submit a copy of the Articles of Merger and the Plan of Merger duly registered with the SEC within 5 days from the date of registration;
c. PNB shall announce the merger in a newspapaer of general circulation and the same shall be posted conspicuously in all of the Bank's premises; and
d. Upon the conversion of the Parent Company shares claimed by the PCGG or the NG into PNB shares, the resulting PNB shares shall be identified. Upon the request of the PCGG or the NG, the claim of the PCGG or the NG shall be recorded in the stock and transfer book of PNB after the merger.

On March 26, 2012, PNB submitted to the BSP and PDIC an application for PDIC's consent to the merger. On April 12, 2012, the application for the merger was filed with the SEC. On July 25, 2012, PNB received notice that the PDIC had given its consent to the merger, and on August 2, 2012, the Monetary Board of the BSP issued a resolution also giving its consent to the merger.

On November 5, 2012, the Hong Kong Monetary Authority has pursuant to Section 70 of the Banking Ordinance granted approval to PNB to become a majority shareholder controller of ABCHKL after the merger with the Parent Company.

On January 17, 2013, the SEC granted its approval to the merger. In addition, with respect to its overseas branches, PNB has also filed notices in relation to the merger with various relevant foreign regulatory agencies; and as of January 17, 2013 had received all necessary approvals to effectuate the merger.

On February 9, 2013, PNB completed its planned merger with the Parent Company. The respective shareholders of PNB and the Parent Company, representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original Plan of Merger was approved by the affirmative vote of PNB and the Parent Company's respective shareholders on June 24, 2008, representing at least two-thirds of the outstanding capital stock of both banks.

LT Group, Inc.
On July 31, 2012, the BOD of Tanduay Holdings, Inc. (THI) approved the acquisition of 27.62% of the Parent Company through the purchase of 100% of the outstanding capital stock of the following 2 holding companies:

Company Name	% Equity in the Parent Company
Solar Holdings Corporation	13.81%
Caravan Holdings Corporation	13.81
Total	27.62%

No change in the management or board line-up of the Parent Company will result from this transaction.

37. Notes to Statements of Cash Flows

As of December 31, 2012, 2011 and January 1, 2011, included in the Group's amount of due from other banks with original maturities of more than three months, hence considered as not cash and cash equivalents, amounted to ₱5.25 billion , ₱974.61 million and ₱1.43 billion respectively. While the amount of interbank loans receivable with original maturities of more than three months, hence considered as not cash and cash equivalents, amounted to ₱1.38 billion and ₱84.85 million, respectively, as of December 31, 2012 and 2011.

Noncash activities include reclassification of the tainted HTM investments to AFS investments amounting to ₱19.14 billion for the year ended December 31, 2011 as a result of the Group's participation in the bond exchange.

38. Approval of the Release of the Financial Statements

The accompanying comparative financial statements of the Group and of the Parent Company were authorized and approved for issue by the BOD in accordance with its resolution on February 22, 2013.

PNB

Office of the Deputy Chief Financial Officer
Direct Lines: 831-3229 FAX: 551-7346
Trunk Lines: 526-3131 to 70/891-6040 to 70
Locals: 4024, 4025

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)

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(Calendar Year Ended)

SEC FORM 17-A REPORT

Form Type

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(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 — 1300
Address of principal office — Postal Code

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

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

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

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

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

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

12. Check whether the issuer:

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

*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 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

Information Technology Risk

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

Business Intelligence

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:

<u>Domestic Subsidiaries:</u>

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

<u>2009 vs. 2008</u>

- 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 ities 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. MENDO , 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 , 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.

The following are the Executive Officers of the Bank:

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. HERNANDE , 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 , 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. GON , 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 PA , 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. TUA, 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
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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

Exhibit I

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
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	
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	
Baliuag	Rizal St. San Jose Baliuag, Bulacan
Bangued	McKinley corner Pe
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,
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 Mu
Olongapo	2440 Rizal Avenue, East Bajac-Bajac Olongapo City,
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.
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, Bi
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	
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	
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	

Exhibit I

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	Osme
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,
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-		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,		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. Espa		10/25/2012
Eton-Corinthian	Unit 78, E-Life 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.		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,		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

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
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			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
BEP			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			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			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 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

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
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-Dasmari			12/27/2015
CEP			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.,		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 Ba		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
MEP			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.,		9/15/2015

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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
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,		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,		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,		8/11/2022
Sta. Ana	Corner F. Bangoy & Rosemary Streets, Davao City	46,200	2/1/2012
Tetuan	Adriano Building, Veterans Avenue, Tetuan,		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. 44083
Notary ... until 12/31/13
9th Floor ...
Pres. D.P. M... City
PTR No. ...

Doc. No. 450
Page No. 9
Book No. ...
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.

SGV & Co
Ernst & Young

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

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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.

Expenses
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.

<u>Investment Properties</u>
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.

<u>Finance leases</u>
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.

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

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

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

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

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

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

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

The main types of collateral obtained are as follows:

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

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

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

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

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

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

	Parent Company			
	2011		**2010**	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit 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).

<u>BSP Reporting</u>

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.

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

Parent Company Statement of Financial Position
December 31, 2011

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

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

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

Parent Company Statement of Financial Position
December 31, 2010

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

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

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

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

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

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

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

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

Software Costs
Movements in Software costs are as follows:

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

15. Allowance for Impairment and Credit Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16. Deposit Liabilities

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

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

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

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

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

Among the significant terms and conditions of the LTNCDs are:

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

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

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

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

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

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

Among the significant terms and conditions of the LTNCDs are:

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

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

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

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

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

Interest expense on deposit liabilities consists of:

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

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

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

This account consists of:

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

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

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

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

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

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

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

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

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

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

18. Bills and Acceptances Payable

This account consists of:

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

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

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

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

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

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

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

Interest expense on bills payable and other borrowings consists of:

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

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

19. Accrued Taxes, Interest and Other Expenses

This account consists of:

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

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

20. Subordinated Debt

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

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

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

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

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

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

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

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

<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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www.sgv.com.ph

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

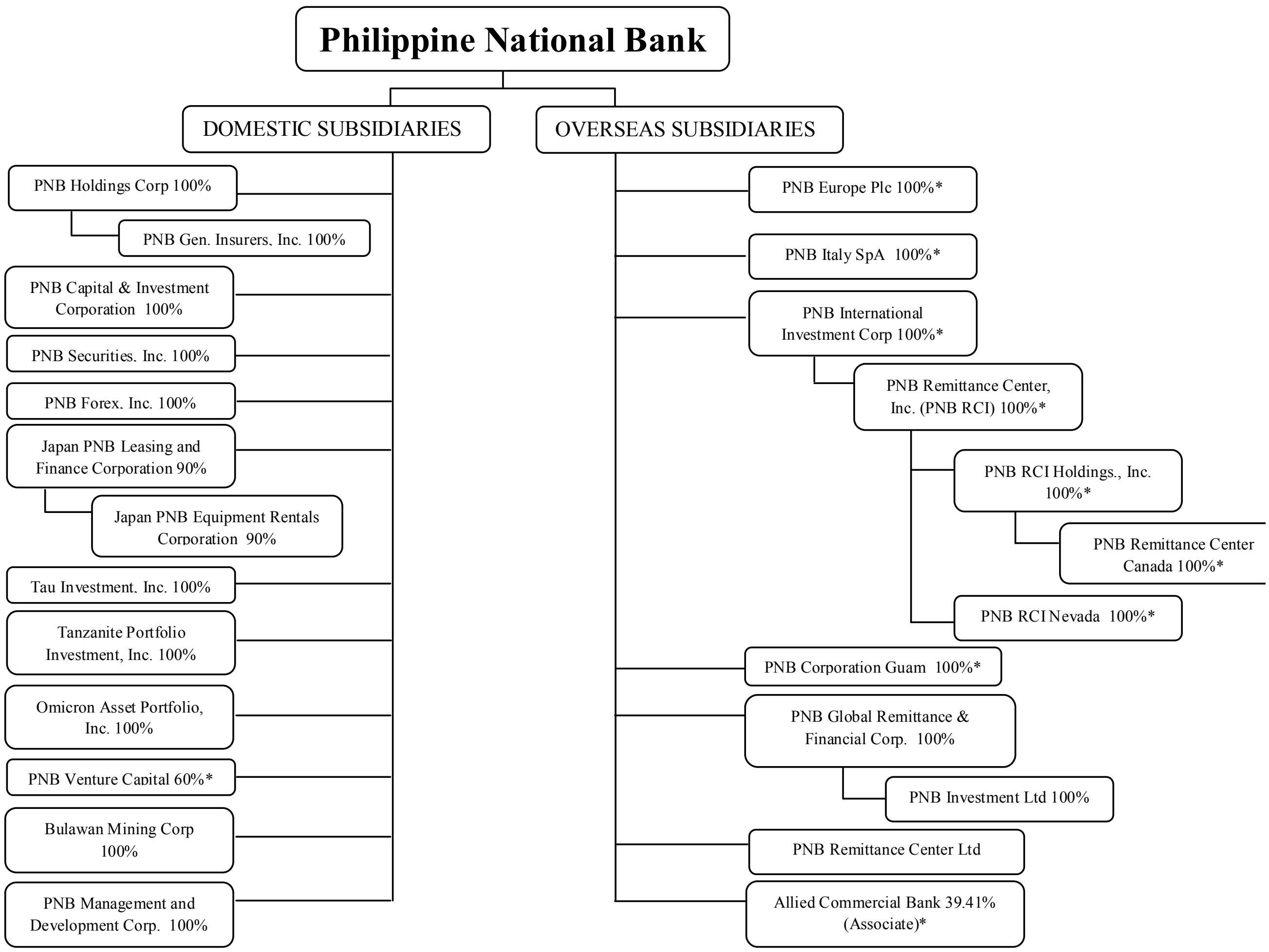
EXHIBIT VI

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