SEC Number **PW-686**
Company TIN **000-263-340**

PHILIPPINE BANK OF COMMUNICATIONS
(Company's Full Name)

PBCOM tower, 6795 Ayala Avenue corner V.A. Rufino Street, Makati City
(Company's Address: No. Street City/Town/Province)

830-7000
(Company's Telephone Number)

December 31
(Fiscal Year Ending)
(Month & Day)

3rd Tuesday of June
Annual Meeting

SEC Form 17-A
(Annual Report Pursuant to Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code)
(FORM TYPE)

N/A
Amendment Designation (If Applicable)

None
(Secondary License Type. If any)

Atty. Rodolfo Ma. A. Ponferrada	215-793-472	December 26, 1976
(Company Representative)	(TIN)	(Birth Date)

---Do not fill below this line---

Cashier

File Number

Central Receiving Unit

Document ID

LCU

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended December 31, 2012

2. SEC Identification Number PW-686 . 3. BIR Tax Identification No. 000-263-340

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

5. Philippines
Province, country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code :

PBCom Tower, 6795 Ayala Avenue cor. V.A. Rufino Street, Makati City 1226 .
7. Address of principal office Postal Code

(632) 830-7000 .
8. Issuer's telephone number, including area code

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

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common	52,598,965 shares
Preferred	120,000,000 shares

11. Are any or all of the securities listed on a Stock Exchange?

Yes [X] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange	Common Stock
Philippine Stock Exchange	Preferred 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 the registrant was required to file such reports)

Yes [/] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ] No [/]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

Non-affiliated shares	-	4,688,482
Average price as of Mar 1, 2013	-	P73
Aggregate market value of voting stock	-	P342,259,186

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [/] No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;
(b) Any information statement filed pursuant to SRC Rule 20;
(c) Any prospectus filed pursuant to SRC Rule 8.1

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Business Development

Philippine Bank of Communications ("PBCom" or the "Bank") was incorporated as one of the earliest non-American foreign banks in the country on August 23, 1939. It received the authority to engage in commercial banking from the then Bureau of Banking of the Department of Finance under the Philippine Commonwealth, with a capitalization of Two Million Pesos. The Bank commenced operations on September 4, 1939. However, operations were temporarily interrupted during World War II, but were immediately reconstituted in 1945 through the infusion of fresh funds. The Bank came under full Filipino ownership in 1974 when a group of industrialists led by Ralph Nubla Sr. bought majority of the Bank's outstanding shares.

The Bank is a registered government securities dealer, the license of which was granted on December 14, 1981. It also has a trust license which was given on August 24, 1961.

PBCom acquired a license to operate as an expanded commercial bank from the *Bangko Sentral ng Pilipinas* ("Bangko Sentral" or "BSP") on December 24, 1993 and operated as such until the year 2000. In order to concentrate on its core strengths and maximize utilization of available resources, the Bank applied with the Bangko Sentral for a conversion of the expanded commercial bank license into a regular commercial banking license. The Monetary Board of the BSP (the "Monetary Board:") approved in its resolution no. 508 dated March 31, 2000 the amendment of the Bank's license. PBCom has since opted to capitalize on its strength by focusing on and pursuing traditional commercial banking operations. In December 2000, the Bank acquired 100% of Consumer Savings Bank as part of its strategy to expand its consumer banking business.

PBCOM Finance Corporation is the only remaining associate of the Bank as of December 31, 2012. It is a domestic corporation incorporated in March 1980 and is engaged mainly in financing activities. The Bank owns 40% equity in PBCom Finance Corporation.

The SEC approved the dissolution of PBCOM FOREX Corporation, a subsidiary of the Bank, on March 28, 2005. The Bank had a 100% equity on the corporation. The results of the final liquidation of PBCom FOREX Corporation did not have any material impact on the Bank's financial statements.

PBCOM's head office is now in the Central Business District of Makati. Previously, the Bank's Head Office was based in Binondo where it had grown to develop a core clientele in the Filipino-Chinese community. Traditionally, clients belonging to this group comprise the majority of the Bank's customer base. However, the Bank has been diversifying and expanding its market by making inroads in the corporate finance market. The transfer of the bank's Head Office in 2001 to the PBCOM Tower along Ayala Avenue in Makati City provided better access to corporate clients that were otherwise inaccessible from its previous Binondo Head Office.

On July 26 2011, the major shareholders of the Bank, namely the Chung, Luy, and Nubla Groups, signed a Memorandum of Agreement (MOA) with a group of investors led by ISM Communications Corporation (the "ISM Group"), involving the sale of their entire stake in the Bank to the ISM Group and the commitment of the Chung and Nubla groups to reinvest the proceeds of the sale of their respective shares amounting to approximately ₱2.8 Billion in the Bank.

On October 13, 2011, the Monetary Board approved the acquisition of PBCom by the ISM Group.

On December 23, 2011, the transaction involving the acquisition by the ISM Group of a controlling interest in the Bank was successfully transacted through the facilities of the Philippine Stock Exchange.

On December 28, 2011, the Chung and Nubla Groups had reinvested ₱2.4 Billion as deposits for future subscription to PBCom shares of stock. Another ₱0.4 Billion was deposited in March 2012 and additional P22 Million in April 2012 to complete their commitment of approximately P2.8 billion.

On May 31, 2012, the LFM Properties Group deposited ₱0.72 Billion for future subscription to PBCom shares of stock. Another ₱30 Million was deposited by the LFM Properties Group on October 24, 2012.

Given the vision and resources of the ISM Group as the Bank's strategic third party investor coupled with the re-investment of the Chung and Nubla Groups as well as the additional capital infusion by the LFM Properties Group, PBCom is now is now poised to maximize its potential.

(2) Business of Issuer

(a) Description of Registrant

(i) PBCom offers a wide range of products and services to clients. These include basic commercial banking services such as deposit products, treasury and foreign exchange trading, trade-related services, credit and loan facilities, and Trust and Investment Management services.

Deposit products and services include peso, dollar and third currency savings, checking and time deposit accounts, ATM accounts, foreign and domestic remittance services, cash management services namely deposit pick-up and payroll services. Ancillary services such as safety deposit boxes and manager's checks are also available. These products are both offered on a retail basis to individuals and to corporate clients as well. Various product variations customized to address unique client needs are currently being offered.

Trade-related services include import LCs, export packing credits & bills purchase, domestic LCs and trust receipt financing. These services are financing facilities offered to importers and exporters.

Credit and loan facilities include working capital financing, post-dated check discounting, specialized lending programs such as mortgage and contract-to-sell financing. Structured Products such as salary loan program and trade financing was introduced in August 2005 to establish presence in the retail/consumer market.

Treasury products include domestic dealership in government securities and commercial papers, participation agreement investment, foreign securities trading and purchase/sale of foreign exchange.

Trust services include investment management services, personal trust funds, escrow agency services, employee benefit trust services and estate planning.

The contribution to sales/revenues from these products/services is broken down as follows: (1) net interest income derived from lending, investment and borrowing activities accounted for 54.08% of gross revenues while (2) other operating income (consisting of trading gains, service charges, fees and commissions, income from trust operations, profit/loss from asset sold, fair value gain/(loss) from investment properties, foreign exchange gain/loss, rental income and miscellaneous income accounted for 45.92% of the Bank's gross income.

(ii) The Bank does not maintain any branch or sales office abroad. Hence, all revenues are generated domestically.

(iii) The Bank's liability and ancillary products and services are distributed primarily through its 64-branches and complemented by a network of 62 automated teller machines deployed in strategic branch sites including 13 off-site/off-branch locations. 19 ATMs were added to the network in 2012.

(iv) In 2012, the Bank launched new products, including home and auto loans.

(v) As of December 31, 2012, Philippine commercial banking industry is composed of 16 commercial banks (KB) of which 6 are private domestic commercial banks and 10 are foreign banks with either established subsidiaries or foreign branch licenses.

(vi) There are no outstanding patents, trademarks, copyrights, franchises, concessions, and royalty agreements held as of December 31, 2012

(vii) PBCom had grown to develop over the years a strong core clientele in the Filipino-Chinese community which has become a significant market for the Bank. Today, the Fil-Chinese market remains a major customer base despite the Bank's relative success in making inroads in the corporate finance market where the larger universal banks continue to have a foothold. The Bank continues to establish a stronger presence in the middle market giving more focus in the retail or consumer finance market.

(viii) In the ordinary course of business, the Bank has loan transactions with its associated company and affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% 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, loans to DOSRI generally should not exceed the lower of the Bank's total unimpaired capital or 15% of the total loan portfolio. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations. As of December 31, 2012 the Bank is in compliance with such regulations.

(ix) The Bank fully complies with the required capitalization for commercial banks without expanded banking licenses (non-unibanks) as prescribed by the BSP. The Bank's capital as of end-December 31, 2012 stood at P4.561 Billion while its capital to risk assets ratio under the new BASEL II reporting standards covering credit, market and operational risks as reported to BSP remained well above the 10% prescribed cap at 20.45%.

(x) Republic Act No. 9337 took effect on November 1, 2005 amending some portions of the National Internal Revenue Code. Some significant amendments were the increase of the Income Tax Rate from 32% to 35% up to 2008 and will be decreased to 30% starting 2009, increase of Gross Receipts Tax rate from 5% to 7% of income other than those on lending activities. On May 24, 2007, The Tax Amnesty law (RA 9480) took effect. Said law covers all national internal revenue tax liabilities for 2005 and prior years. A taxpayer availing of the tax amnesty shall enjoy immunity from penalties and audit. Accordingly, PBCom availed of the tax amnesty in 2008.

(x) The bank offers basic commercial banking products and services that require no significant amount to be spent on product research & development.

(xi) As of December 31, 2012 the bank had 1,013 employees with 557 officers and 456 rank and file employees. All rank and file employees are subject to a new 3-year collective bargaining agreement signed last April 12, 2013. There had been neither dispute nor occurrence of employees' strike for the past three years. The Bank expects to increase the current level of employees within the next twelve (12) months in line with its growth and transformation strategy.

Risk Management

PBCom's risk mission, objectives and philosophy are based on the strategy that for an effective risk management, it is necessary to have both an appropriate risk management environment and a dynamic and pro-active risk management process.

The risk management philosophy of PBCom is to develop risk awareness, and a risk/return consciousness in order to protect deposits, preserve and properly allocate capital and ensure an adequate return on capital. Overseeing the bankwide implementation of the risk management process and ensuring compliance with defined risk parameters is the Risk Management Committee. It is composed of select Board Members and Senior Management who meet regularly. Directly reporting to the Risk Management Committee is the Risk Management Group, a distinct and independent unit in the bank whose primary responsibility is to enable the risk management process in the areas of Treasury, Credit, Operations and Trust and to develop and continually update the bank's risk management system.

Capital Management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("Bank for International Settlements rules/ratios") and adopted by the BSP in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with regulatory capital requirements under BSP Circular No. 538 dated August 4, 2006 (Revised Risk-Based Capital Adequacy Framework) that took effect on July 1, 2007, and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

The Bank computes its risk-based capital adequacy ratio as a percentage of its qualifying capital to its risk-weighted assets which shall not be less than 10% in accordance with Circular No. 538, and at least 12.5% under the FAA. Qualifying capital and risk weighted assets are computed based on the guidelines under Circular No. 538.

The Bank has complied in full with all its regulatory capital requirements.

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which comprises paid-up common and preferred stock, surplus including current year profit and surplus reserves less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI) and deferred income tax and significant minority investments in banks and other financial allied undertakings. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes appraisal increment reserves, as authorized by the monetary board and general loan loss provision.

The bank's capital charge for credit risk is computed at 10% of credit risk-weighted on- and off-balance sheet assets. Risk weights of on-balance sheet assets are based on third party credit assessment of the individual exposure given by eligible external credit assessment institutions as listed in BSP Circular No. 538. For off-balance sheet assets, the risk weights are calculated by multiplying the notional principal amount by the appropriate credit conversion factor as specified in BSP Circular No. 538.

Market risk capital charge is computed according to the methodology set under BSP Circular No. 360, as amended by BSP Circular No. 538 using the standardized approach. Under this approach, capital for market risk is equivalent to 10% of market risk-weighted assets that cover interest rate, equity and foreign exposures of the bank.

The bank computes operational risk capital charge using the basic indicator approach.

The Bank has likewise implemented its Internal Capital Adequacy Assessment Process (ICAAP) as required under BSP Circular No. 639. In addition to the risk covered under BSP Circular No. 538, the Bank has started computing the corresponding risk weights and assessing the capital charge for other risks such as credit concentration risk, interest rate risk, compliance risk, strategic risk and reputational risk.

Treasury Risk Management

Market risk arises from adverse fluctuations in the market value of financial instruments in both on- and off-balance sheet items. The Bank employs Value-at-Risk (VaR) using a 99% one-tailed confidence level to measure market risk while a regular back testing program is conducted to ensure an accurate and robust VaR model. Stress Testing is also employed to determine the earnings impact of extreme market movements not captured by VaR calculations. Finally, a system of risk limits that reflect the Bank's level of capital, expected returns and the overall risk appetite is used to manage market risk. These limits include the VAR limit, Nominal Position limit, Stop-loss limit and Management Action Trigger (MAT) limit. The Bank also uses BSP's Risk Assessment System (RAS) to assess its market risk.

Credit risk is the risk to earnings that a counterparty is unable to pay obligation on time and in full as previously contracted. The Bank has established an internal risk rating system to determine the soundness of a financial institution before credit lines are granted. Once the credit facilities are granted, a system of monitoring credit limits are employed to manage credit exposures.

Liquidity risk refers to the possibility that the Bank will not be able to meet its financial obligations in any currency. The Bank employs liquidity ratios, liquidity stress testing, a liquidity gapping report and Maximum Cumulative Outflow (MCO) limit to manage liquidity risk. Market stress testing results are also applied to the Liquidity Gap report to measure impact on future cashflows.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Bank follows a prudent policy in managing its assets and liabilities to ensure that the exposure to fluctuations in interest rates is kept within acceptable limits. A substantial proportion of the total loan portfolio is for a term of less than one year, and the majority of the balance of its medium-term portfolio is on a floating-rate basis. Floating rate loans are repriced periodically by reference to the transfer pool rate which reflects the Bank's internal cost of funds. As a result of these factors, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly reduced. The Bank, in keeping with banking industry practice, aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transactional banking requirements of customers.

Credit Risk Management

The Bank employs a risk rating system to assess and measure the diverse risk factors of a borrower. The system is designed to reveal the overall risk of lending and serves as a tool for making credit decisions, evaluating the credit risk of potential and existing borrowers, and for pricing purposes.

Periodic assessment of the loan portfolio quality and credit process is conducted through a robust credit review process. A pro-active assessment of the loan portfolio is done through the conduct of periodic stress testing of loan accounts. Among the tools used are:

a. Rapid Portfolio Review (RPR) – is a form of "stress testing" meant to cover significant development in the credit environment that can affect borrower's business and ultimately the quality of Bank's portfolio within a 12-month scenario. It allows management to determine the capital impact for the excessive large loan exposure given to the corporate/ group of borrowings.

b. Specific Impairment Test - performed for classified loan accounts whose outstanding principal balances and booked Accrued Interest Receivable (AIR) fall within selected criteria. Computation is based on the carrying amount of outstanding loan and booked AIR less net present value of the expected collection discounted at the loan's original interest rate.

c. Collective Impairment Test - performed for loan accounts with no signs of impairment. This may be compared with the general loan loss provisioning of BSP.

The management of the credit portfolio is subject to prudential limits which serve to control the magnitude of credit risk exposures and preserve the quality of the portfolio. The Bank also monitors large exposures and credit risk concentrations in accordance with BSP Circular 414.

The credit risk management function also involves the identification of inherent risks related to transactions or processes executed with respect to all lending-related activities. In line with this function, the Risk Management Group has developed a Key Risk Indicators Report (KRIR) to serve as a tool to monitor the risk profile of the Bank's business units (e.g. lending and support groups) and to establish internal loss and key risk indicator databases.

Operational Risk Management

Operational risk arises from inadequate or failed internal processes, people, systems and external events. The primary tool in controlling operational risk is an effective system of internal controls approved by the Board and participated by each and every employee of the Bank.

Aside from securing adequate insurance coverage's over properties owned and acquired, setting-up reserves for self-insurance and allowances for probable losses, operational risk is mitigated through preventive and detective controls which are embedded in our operating policies and procedures, approval limits and authorities to govern day-to-day operations.

Proactively, the Bank has implemented a robust operational risk identification, assessment, monitoring, control and reporting system in each operating unit in the Bank. The main operational risk identification and assessment tools used are the risk assessment survey, risk mapping and operational risk matrix that are periodically updated. Risk Control Self-Assessments are also used where applicable. These tools are supplemented by the Operational Losses and Key Risk Indicators Reports which are required to be submitted monthly by all operating units. Moreover, a system for reporting of operational crimes and losses, and policies on whistle-blowing and handling of administrative cases are in place.

To instill risk awareness and operational risk control environment, the Bank through its Risk Management Group conducts seminars and workshops on Operational Risk Management attended by different units of the Bank. The Risk Management Group likewise continuously develops and implements risk management policies, while holding interactive meetings with operating units to address risk issues and implement process enhancements.

A technology risk management framework that incorporates the requirements under existing BSP regulations and which takes into account strategic, operational, compliance and reputational risk is periodically reviewed and updated to ensure that all risks in the Bank's technology-enabled products, services, delivery channels and processes are effectively managed and that any gaps between the existing technology infrastructure vis-a-vis regulatory requirements are regularly monitored and resolutions to bridge the gaps are identified and implemented.

The Bank through its Business Continuity Planning Directorate and Risk Management Group acting as BCP Coordinator follows a robust business continuity planning process that involves the conduct of a business impact analysis/risk assessment, periodic review and updating of business continuity plans and conduct of BCP tests.

Trust Risk Management

Trust risks pertain to losses that can occur for failure of the Trust Group to fulfill its fiduciary responsibilities to its trustors/principals. Having account management, trading, investment and operations functions, Trust is also exposed to the major risk areas of Market, Credit and Operations.

Risks arising in the performance of trust duties and obligations are addressed through the Trust Committee and Risk Management Group. The Trust Committee performs oversight function on trust services. The Risk Management Group spearheads the effective implementation of the risk management process through: (1) Operational Loss and Key Risk Indicators Report to analyze, manage and monitor the risk profile of trust; BOD-approved Trust Risk Management Policies that serve as a guide in managing risk associated with organization, account management, trading, investment and operations functions; (2) Stress Testing of UITF portfolio to measure the earnings impact to market movements that are considered 'extreme" but possible; and, (3) Conducts seminars, interactive meetings with concerned risk takers to effectively promote risk awareness.

Item 2. Properties

The Bank's Head Office is located at PBCom Tower, 6795 Ayala Avenue corner V.A. Rufino Street, Makati City. PBCom currently owns 50% of PBCom Tower which was constructed under a Joint Development Agreement with Filinvest Asia. The Bank has 64 branches nationwide as of December 31, 2012. Most of these are located in the metropolitan areas of Luzon, Visayas and Mindanao. These branches are owned and/or leased by the Bank. The list of our branches is attached herewith marked as Annex "**A**".

All properties owned by the bank are unencumbered.

Item 3. Legal Proceedings

On 5 August 2011, the Development Bank of the Philippines (DBP) instituted a criminal complaint against then Director Roberto V. Ongpin (RVO) and twenty-seven (27) other individuals before the Office of the Ombudsman (docketed as OMB Case No. C-C-11-0492) in connection with certain loan and share purchase transactions entered into by the companies owned by RVO with DBP in 2009. The Ombudsman filed the Informations against RVO and other individuals for violation of Section 3 (e) of R.A. No. 3019 before the Sandiganbayan and the cases were both entitled People vs. Reynaldo G. David, et al., and docketed as S.B.-13-CRM-0105 and S.B.-13-CRIM-0106. The cases are currently pending before the Third Division of the Sandiganbayan.

The Anti-Money Laundering Council (AMLC) filed with the Court of Appeals an ex-parte petition for issuance of freeze order against the bank accounts of RVO, et. al. including their related web of accounts (AMLC petition). The AMLC petition was granted by the Court of Appeals by the issuance of a freeze order on 06 December 2012. This freeze order was extended up to 26 June 2013 in a resolution by the Court of Appeals promulgated on 26 December 2012.

On 7 December 2011, Atty. Mario Ongkiko filed a "derivative suit" against RVO and other companies beneficially owned by RVO before the Regional Trial Court of Pasig City (docketed as SEC Case No. 11-166) (SEC case) in connection with Section 23.2 of the Securities Regulation Code. The matter is also pending. There is also a related Petition for Review on Certiorari pending before the Supreme Court in G.R. No. 204166, entitled Roberto V. Ongpin, et al. vs. Acorda, et al,.

In any event and based on information, the legal counsel of RVO advised him that the criminal complaint "will not prosper" and the SEC case "is baseless and will be eventually dismissed for lack of merit and/or for being a mere harassment suit."

On December 28, 2012, RVO tendered his resignation as Co-Chairman and Director of PBCom, while on January 4, 2012, RVO completely divested his stake in PBCom.

Subsequently, RVO filed the following cases:

(a) Roberto V. Ongpin vs. Nestor A. Espenilla, Jr., OMB Case No. IC-OC-13-0044, pending before the Office of the Ombudsman, which is a criminal complaint for violation of Section 3 (e) of R.A. No. 3019 filed on January 10, 2013;

(b) Roberto V. Ongpin vs. Vicente S. Aquino, OMB Case No. IC-CC-13-0007, pending before the Office of the Ombudsman, which is a criminal complaint for violation of Section 3 (e) of R.A. No. 3019 and perjury under Article 183 of the Revised Penal Code filed on January 14, 2013;

Other than the foregoing, the Bank is not aware of any other legal proceeding including without limitation any (a) bankruptcy petition, (b) conviction by final judgment, (c) order, judgment or decree, or (d) violation of a securities or commodities law, during the last five (5) years up to the date of the filing of this Statement, to which any of its Directors and Executive Officers is a party and which is material to an evaluation of their ability or integrity to act as such.

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

Nothing was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

Common Shares of the Bank are traded in the Philippine Stock Exchange.

Stock prices:

	2012		2011		2010	
	High	Low	High	Low	High	Low
First Quarter	86.00	84.00	55.00	54.50	28.50	28.50
Second Quarter	70.00	65.00	85.00	35.00	28.50	28.50
Third Quarter	81.00	78.00	126.00	45.00	28.50	24.00
Fourth Quarter	72.00	72.00	89.90	56.00	62.00	25.25

Holders

As of 31 December 2012 there were 383 shareholders of the Bank's 52,598,965 issued common shares and 11 shareholders of the 120,000,000 preferred shares. The Top 20 registered shareholders are as follows:

Name	Nationality	Common	Preferred	Total	Percentage
1. ISM Communications Corporation	Filipino	17,460,219	45,773,540	62,233,759	36.64%
2. Recto, Eric O.	Filipino	14,548,709	36,440,471	50,989,180	29.54%
3. Ongpin, Roberto V.	Filipino	6,131,801	15,358,446	21,490,247	12.45%
4. Langford Universal Finance Ltd.	BVI	4,355,254	10,908,710	15,263,964	8.84%
5. Injap Investments, Inc.	Filipino	1,021,965	2,559,741	3,581,706	2.08%
6. Roxas-Chua, Ray Anthony Go	Filipino	1,021,964	2,559,742	3,581,706	2.08%
7. PDC Nominee Corporation Filipino - 3,007,936 Non-Filipino - 45,341		3,053,277		3,053,277	1.77%
8. Yu, Gregorio T.	Filipino	510,993	1,279,870	1,790,863	1.04%
9. Cham, Edison Siy	Filipino	510,983	1,279,870	1,790,853	1.04%
10. Cham, Edison	Filipino	510,983	1,279,870	1,790,853	1.04%
11. KLG International, Inc.	Filipino	510,983	1,279,870	1,790,853	1.04%
12. Lim, Benito T.	Filipino	510,983	1,279,870	1,790,853	1.04%
13. Chua, Renato C.	Filipino	814,666		814,666	0.47%
14. Ching, Winnefred	Filipino	187,798		187,798	0.11%
15. Ching, Jeffrey	Filipino	175,505		175,505	0.10%
16. Southeastern Investment & Realty Corporation	Filipino	133,130		133,130	0.08%
17. Sy, Dioceldo S.	Filipino	117,820		117,820	0.07%
18. Center Industrial & Investment, Inc.	Filipino	114,970		114,970	0.07%
19. Bengsons Investment & Realty	Filipino	88,133		88,133	0.05%

Corp					
20. Cosmopolitan Investment Co., Inc.	Filipino	85,422		85,422	0.05%

Dividends History:

Year	Stock Dividend	Cash Dividend
2012	-	-
2011	-	-
2010	-	-
2009	-	-

The Bank strictly complies with the BSP regulatory requirements under Sec. X136.2 of the Manual of Regulations for Banks which states that "before any declaration of dividends, banks shall comply with the following:

(a) Minimum capitalization requirement and net worth to risk assets ratio;
(b) Legal reserves;
(c) Liquidity floor; and
(d) EFCDU/FCDU cover."

The prescribed duration of compliance shall be reckoned from the last eight (8) weeks immediately preceding the date of dividend declaration up to the record date of said dividend.

The bank has no unregistered securities being sold for the past three years.

Item 6. Management's Discussion and Analysis or Plan of Operation.

(1) Management's Discussion & Analysis

Financial Condition & Results of Operations: 2012

On its second year after the entry of ISM Group as strategic third party investor, the Bank took on significant and bold initiatives that ushered in change and transformation. These initiatives included the appointment of a new President and Chief Executive Officer and the hiring of a new senior leadership team that will lead the Bank to the next level. The Bank aims to be a significant player in the midmarket segments where great customer service is much appreciated.

The Bank registered a net income of P968M for 2012. The bottom line grew by 22% or P171M from P796M realized last year. The increase in net profits was attributed to favorable market conditions that resulted to higher revenues from trading and lending activities.

Total interest income for 2012 increased by 7% to P3.139B from P2.9B. Lending activities increased by 61% from previous year's level of P8.33B. The Bank provided credits worth over P5B to its clients during the year. This resulted to increased income on loans and receivable of P138M which included the net effect of P204M in booking the accretion on the value of MRT bonds due to the change in the accounting estimation related to maturity dates and P177M from the recognition of PEACe bonds. Income from trading and Investment Securities increased by 3% due to better market conditions and portfolio mix while interest on deposit with other bank declined by 56% or P19M as a result of the implementation of BSP Circular 753 on reserve requirements.

Net Interest Income improved by 14% as a result of better performance from the regular income streams of the Bank despite a corresponding increase in interest and finance charges by 3%.

As the overall market outlook improved this year, trading activities also picked up which translated to healthy trading gains that grew by P518M or 220% from the P236M level in 2011. Better marketing and sale programs for ROPA properties resulted in the realization of gains of P115M mainly from sale of Bukidnon property in 2012 as compared to last year's P8M. This was, however, offset by last year's recognition of fair value gain on PBCom Tower by P319M. Thus, total operating income only improved by 28%.

Total operating expenses increased by 32% or P395M more than last year's level of P1.236B. Of the total amount, 19% or P115M increase came from compensation and fringe benefits as the Bank invested heavily in human capital. As the lending and treasury business grew, related taxes such as DST and GRT increased by 10%, from P294M to P323M this year, while various infrastructure and hardware upgrades also contributed to increased Depreciation and Amortization by P19M.

The Bank's balance sheet registered an 11% growth year on year to P45.8B. The increase came from loans and securities that expanded by P6.07B this year in spite of lower SPURA by P1.8B. Sources of funds used to expand the business came from the deposit base that grew by P3.5B to P31.3B and from additional capital infusion by P1.1B. NPL ratio improved to 1.02% from 4.79% in December 2011 due to a decrease in NPL by P355M as prescribed by BSP in its Circular 351.

The Bank's Equity now stands at P4.56B from the P3.43B level as of year-end, a growth of 33%, due to the current year net income of P968M and additional cash subscriptions of P1.8B from the Groups of ISM, Chung, Nubla and LFM Properties. The Bank's Risk Based Capital Adequacy Ratio, covering credit, market and operational risk, stood firmly at 20.45% and this is well above the 10% minimum requirement of BSP.

Financial Condition & Results of Operations: 2011

The entry of the ISM Group as the Bank's strategic third party investor injected a new focus and commitment for excellence to meet today's banking challenges. The change in ownership structure also brought about bold initiatives that can be seen from the improvement in the Bank's asset quality and profitability paving the way to a stronger and healthier Balance Sheet position.

In 2011, the Bank aligned its accounting for the excess of the book value over the net realizable value of NPLs and ROPA sold to the SPV and tainting of HTM investments for Banks that participated in the Bond Exchange program in 2010, with Philippine Financial Reporting Standards (PFRS). A change in accounting policy on measurement of investment properties from cost to fair value model was also adopted and the prior year figures have been restated.

The table below show the summary of the reconciliation of previously reported and restated balances as disclosed in Note 30 of the Audited Financial Statement.

Assets

	2010	2009
As previously reported	41,659,117,968	42,625,626,361
Reclassification of HTM investments to AFS investments	1,822,173,511	
Change in accounting policy on investment properties	1,116,463,934	874,755,079
Correction of error on the accounting treatment on SPV losses	(5,921,040,451)	(5,921,040,451)
As restated	**38,676,714,962**	**37,579,340,989**

Liabilities

	2010	2009
As previously reported	38,084,197,317	39,606,925,925
Recognition of deferred tax liability on fair value gain on investment properties	285,837,993	231,639,379
Adjustment on initial recording of AFS and realization of gain on bond exchange	(66,513,499)	
As restated	**38,303,521,811**	**39,838,565,304**

Equity

	2010	2009
As previously reported	**3,574,920,651**	3,018,700,436
Correction of error on the accounting treatment on SPV losses	**(5,921,040,451)**	(5,921,040,451)
Change in accounting policy on investment properties	**830,625,941**	643,115,700
Reclassification of HTM investments to AFS investments	**1,866,149,359**	
Realization of gain from bond exchange	**22,537,651**	
	(3,201,727,500)	(5,277,924,751)
As restated	**373,193,151**	**(2,259,224,315)**

Net income

	2010	2009
As previously reported	377,303,728	102,192,994
Change in accounting policy on investment properties	187,510,241	214,524,227
Gain from bond exchange	22,537,651	
As restated	**587,351,620**	**316,717,221**

PBCom's bottom line profit in year-end 2011 posted a 35.59% growth to P796M from the re-stated net income of P587M in 2010. The upturn in net profits was attributed to fair value gains on investment property of P315M and higher foreign exchange earnings coupled with the contraction in interest and operating expenses coming from the reversal of accruals for tax assessments amounting to P198M as the Bank received favorable final judgments from the Supreme Court on various outstanding tax assessments and from the reversal of provisions due to the settlement of a fully provided NPL account amounting to P188M. This compensated for the decreases in revenue streams from securities trading and from Interest Income that was mainly due to the reduction in past due interest collections this year.

The Bank's capital base stood at P3.433B from the 2010 re-stated level of P373M. The capital build-up consisting of the P2.37B capital infusion, revaluation increment on investment properties of P1.39B and mark-to-market valuation of the P7.6B PDIC collateral amounting to P1.6B enabled the Bank to absorb the acceleration of deferred SPAV losses of P5.92B.

PBCom's liquidity position continued to remain stable as the Bank comfortably met all its financial obligations and loan commitments and likewise fully complied with the regulatory reserve requirements on continuing basis at an optimum funding mix during the course of the year.

The Bank's total assets stood at P41.42B, P2.74B ahead of the December 2010 re-stated level corollary to the P2.37B capital infusion. Total loan portfolio expanded by P1.06B to P10.9 from P9.9B as of year-end 2010. Non-performing loans (NPL), net of P782M in fully provisioned accounts, decreased by P365M to P487 million as of year-end 2011. Correspondingly NPL ratio improved to 4.79% from 9.25% in December 2010.

Financial Condition & Results of Operations: 2010

PBCom's 2010 re-stated net income was 85.45% higher at P587M from the 2009 re-stated income of P307M. The jump in net income came mainly from trading gains which contributed P530M to the Bank's income, up by P411M or 345% from the P119M earned in 2009.

Total operating income improved by 17% from P2.15B in 2009 to P2.51B in 2010. Total operating expenses which included the provision for credit and impairment losses grew only by 0.92% from P1.59B in 2009 to P1.61B in 2010. This resulted in a 64% improvement in net operating income for 2010 compared to 2009.

Capital funds as re-stated, stood at P373 million as of year-end 2010, up by P2.6 billion from 2009 re-stated level of negative P2.259B and was attributed to the retroactive effect of the tainting of HTM investments for Banks that participated in the Bond Exchange program in 2010, the change in accounting policy on the measurement of investment properties from cost to fair value model as allowed under PAS 40, *Investment Properties*; and the correction of the accounting for the excess of the book value over the net realizable value of NPLs and real and other properties acquired which were sold to a SPV in 2004 in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* and PAS 40, respectively.

PBCom's liquidity position continued to remain stable as the Bank comfortably met all its financial obligations and loan commitments and likewise fully complied with the regulatory reserve requirements on continuing basis at an optimum funding mix during the course of the year.

PBCom's total deposits amounted to P27.61B in 2010 from P28.56B in 2009. There was a favorable shift from high cost deposits to cheaper funds as time deposits declined by P1.69B while CA/SA deposits grew by P734.97M. This resulted in a favorable reduction in interest expenses which went down by 15% or P281M from P1.88B in 2009 to P1.60B in 2010.

The Bank's total assets as re-stated, stood at P38.68 billion in 2010 from the re-stated level of P37.58 billion in 2009.

There was a decrease in Investment properties by P177 million coming from the increase in disposals of foreclosed assets in the comparable period.

Inter-bank lending/SPURA also went down by P641 million as excess funds at year-end were invested in higher yielding BSP Special Deposit Account (SDA).

The growth posted in Loans and Receivables by P576 million mainly coming from higher investment in core loans and unquoted debt securities and Due from BSP by P357 million on account of the increase in SDA placement held back the decline in total resources.

Non-performing loans (NPL), net of P679 million in fully provisioned accounts, decreased to P852 million. Correspondingly NPL ratio improved from 13.98% in 2009 to 9.25% in year-end 2010.

In the Bank's Annual Stockholder's Meeting held October 15, 2010, the stockholders approved the increase of the Bank's authorized capital stock of up to 100% of its present level of P17.5 billion under the terms and conditions as may be fixed and approved by the Bank's Board of Directors. Said increase in the Bank's authorized capital stock was in preparation for the capital restoration program of the Bank as required by the Banko Sentral ng Pilipinas.

The Bank continues to explore various options available to comply with the provision in the Financial Assistance Agreement with Philippine Deposit Insurance Corporation for the Bank to bid out 67% of the controlling interest of the majority stockholders of the Bank.

(2) Discussion of various key indicators:

A. Financial Soundness

Ratio	December 2012	December 2011	Remarks
Liquidity Ratio (Liquid Assets to Total Deposits) *Liquid Assets include cash, due from banks, interbank loans, and trading and inv. Securities Total deposit refers to the total of peso and foreign currency deposits.*	78.73%	92.97%	The Bank's lending business grew by P5.1B this year, which resulted to lower liquidity ratio, compared to last year's level.
Debt Ratio (Total Liability to Total Equity) *Debt refers to the total liabilities while equity is the total capital*	90.0%	91.7%	Debt ratio improved due to additional capital infusion from stock subscription this year by various stockholders of the Bank.
Asset to Equity Ratio (Total Asset to Total Equity	1,004.7%	1,206.5%	The Bank has strong balance sheet with relatively low debts as a result of additional stock subscriptions from various stockholders of the Bank.
Interest Rate Coverage Ratio (Earnings before interest & taxes to Interest Expense)	177.58%	173.68%	Higher earnings from securities and loans outpaced the interest expense that resulted to improved interest rate coverage ratio.
Net Interest Margin Net interest income over Average Earning assets	4.37%	3.92%	Net interest margin ratio improved this year compared to previous year due to higher income and earning assets.

B. Financial Performance

Ratio	December 2012	December 2011	Remarks
Profit Margin	21.45%	20.03%	The ratio slightly increased by 1.42% due to more profitable business particularly on the treasury operations.
Return on Average Asset	2.22%	1.99%	Growth in net income outpaced by the increase in Average Assets
Return on Average Equity	24.22%	41.84%	Decreased in ratio by 17.63% is due to higher average equity as a result of capital infusion during the year.
Capital Adequacy Ratio	20.45%	25.98%	CAR ratio (as submitted to BSP) declined this year due to write-off of P4.98B as unamortized SPV loss. This however was tapered by an increased in capital by P1.3B due approved booking of appraisal increment on PBCom tower. The ratio is well above the 10% minimum required by BSP, covers credit, market and operational risk.
Basic Earnings per share	5.61	4.61	An improved in earnings per share by P1 is due to higher net income this year.

(a) Full Fiscal years

- The Bank does not anticipate any cash flow or liquidity problems in the next 12 months after year-end 2012.
- The Bank does not foresee any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- There are no material commitments for capital expenditures.
- Uncertainties regarding the sustainability of economic growth of the country may pose challenges in the Bank's drive to expand its loan portfolio. Any negative impact of a slower economic growth, however, may be overcome or mitigated at the very least by aggressive spread management initiatives.
- There were no significant elements of the Bank's income in 2012 that did not arise from continuing operations.
- Material Changes from Period to Period

Statement of Condition: December 2012 vs. December 2011

(in thousands)	Increase (Decrease)	Percentage	Remarks
Cash and Other Cash Items	181,934	49.28%	Higher cash reserves for December holidays in connection with more deposit clients of the Bank.
Due from BSP	(529,716)	-8.77%	BSP rules on lower reserve requirements from 21% to 18% resulted to lower amount maintained on Due from BSP account.
Due from Other Banks	372,331	72.32%	Higher balance in Foreign Banks is due to expected LC negotiations as of reporting date.
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)	(1,836,278)	-64.88%	Transfer of funds from investment in SPURA to other high yielding securities and lending activities in the period.
Available-for-Sale Investments	635,058	3.93%	Purchase of additional proprietary securities during the period.
Loans and Receivables	5,435,956	51.67%	More lending activities this year that resulted to higher receivable from customers and customers' liab. on acceptance, import bills and TR .
Investment in an Associate	458	3.91%	Bank's share on income of PBCom Finance for the year.
Property and Equipment	385,762	40.52%	Purchase of various infrastructures and transfer of certain floors in PBCom tower from investment properties to improve operational efficiency.
Investment Properties	(302,520)	-7.76%	Sale of ROPA properties and transfer of 18th and half of 15th floor of PBCom tower to bank premises.
Other Assets	67,149	48.49%	Purchase of software licenses for various systems and projects and creditable tax withheld booked during the year.
Demand Deposits	904,279	18.52%	Increase in demand and time deposits were due to reinforced strategies of the Retail Banking Segment to generate more deposits across all branches.
Savings Deposits	326,866	13.48%	
Time Deposits	2,307,278	11.25%	
Bills Payable	467,666	6.36%	The net effect of increased accretion on borrowing from PDIC by P707M and decline in deposit substitutes (P94M) and foreign currency inter-bank borrowings (P145M) in the comparable period.
Outstanding Acceptances	(24,684)	-43.30%	Lower bills of exchange accepted by the Bank
Manager's Checks	33,250	98.37%	Increase in un-negotiated MC's as of report date
Deferred tax liabilities - net	4,493	1.05%	Increased in deferred tax liabilities as a result of fair value movement in investment properties
Other Liabilities	(737,779)	-36.52%	Amortization of unearned income on the accretion of borrowing from PDIC.

Statement of Income and Expenses: Jan-Dec 2012 vs Jan-Dec 2011

(in thousands)	Increase (Decrease)	Percentage	Remarks
Interest Income on Trading and investment securities	37,238	2.96%	Attributed to the P3.7B increase in year-on-year average volume of securities holdings this year and adjustment on amortization of tax on discount & premium on AFS by P24M.
Interest Income on Loans and receivable	138,170	14.35%	Higher lending activities this year and accretion on value of MRT notes amounts to P204M due to reassessment on estimates on timing of settlement of investments due to rating upgrade of MRT III notes. However, it was partially offset by P177M due to maturity of PEACe bond last Oct 2011.
Interest Income on IBCL & SPURA	2,330	5.59%	Higher year-on-year average volume by P161M of investment in SPURA.
Interest Income on Deposit with other Banks and others	(19,272)	-55.87%	Due to implementation of BSP Circular 753 where deposits in compliance with the reserve requirements are no longer earn interest effective April 6, 2012.
Interest Income on Others	75,790	12.46%	Due to higher amortization of unearned income from Bills

			payable-PDIC for the year which was recognized as income over the life of the loan using effective interest method.
Interest Expense on Deposit Liabilities	(21,338)	-2.65%	Lower average deposit rates for Time deposits in the comparable by 0.20% despite increased year-on-year average volumes.
Interest Expense on Bills payable, borrowings and others	66,153	8.58%	Higher amortization of unamortized discount on Bills payable-PDIC as result of using effective interest method in measuring the FAA at fair value.
Trading and Securities Gain – net	518,088	219.53%	Favorable interest rate movement in the bond market resulted to more trading gains this year. .
Service Charges, Fees & Commissions	25,916	20.30%	Recognition of front-end fees from higher loan activities.
Income from Trust Operations	(4,322)	-21.93%	Competitive environment in the Trust business resulted to lower fees for this year
Rent Income	6,071	2.10%	The rental rates in PBCom tower improved during the year. This however was partly offset by slightly lower occupancy ratio towards the tail end of the year as part of office space for lease were occupied by the Bank to improve its operational efficiency.
Profit/(Loss) from Assets Sold/Exchanged	114,973	1,383.93%	Better sales and marketing program for ROPA properties resulted to higher gains on sale recognized this year.
Fair Value Gain	(319,431)	-101.43%	Last year's recognition of fair value gain from appraised value of investment properties as a result of Bank's change in accounting policy.
Foreign Exchange Gain (Loss) – Net	(21,596)	-47.06%	Volatile foreign exchange rates resulted to higher revaluation loss and lower realized gain from foreign exchange this year.
Miscellaneous Other Income	(17,182)	-61.25%	Last year's recognition of penalty charges on various defaulted loan borrower
Compensation and Fringe Benefits	115,205	18.51%	Hiring of additional key personnel and staffs during the year.
Depreciation & Amortization	19,085	32.45%	Investments were made to various furniture, IT infrastructures and desktop upgrade to improve operations of the Bank resulted to higher depreciation and amortization this year.
Occupancy and other equipment- related costs	6,514	7.20%	Higher expense on service providers and repairs and maintenance this year
Taxes and Licenses	29,063	9.87%	Combined effect of the increased revenues subject to gross receipt tax and higher documentary stamp tax expense on increased volume of term placements.
Miscellaneous	237,661	148.42%	Combination of last year's reversal of provision for tax assessment as a result of favorable ruling by P198M and higher management and profession fees this year.
Provision for impairment losses	(11,914)	-111.88%	Sufficient provision on loans last year resulted to lower booking this year
Provision for Income Tax	(75,377)	-20.62%	Last year's recognition of deferred tax arising from fair value gain on investment properties.

Interest income on non-discounted loans is recognized based on the accrual method of accounting while unearned discounts are amortized to income over the terms of the loans. As such, there are no seasonal aspects that materially impact on the Bank's interest revenues.

Item 7. Financial Statements

Attached hereto are the audited financial statements for the year ended December 31, 2012.

The accounting firm of Sycip, Gorres, Velayo and Co. ("SGV"), with address at SGV Building, 6760 Ayala Avenue, Makati City, has been the Bank's independent public accountants for the past years. The same accounting firm will likely be recommended for re-election at the scheduled annual meeting. Ms. Vicky B. Lee-Salas was assigned in 2009 as SGV's partner-in-charge for the Bank. In case the 5-year limit for such assigned partner has been reached, the bank will pursue the engagement of another partner in compliance with SRC 68(3)(b)(ix).

SGV is expected to be represented in the coming Annual Stockholders' Meeting with an opportunity to make statements, if they so desire, and will be available to respond to appropriate questions.

There is no disagreement with the Bank's accountants on matters of accounting and financial disclosure.

The aggregate external audit fees billed for each of the last two (2) fiscal years for the audit of the registrant's annual financial statements or services that are normally provided by the external auditors are as follows:

Fiscal Year	Audit Fees and Other-related Fees	Tax Fees
2012	2,636,928	-0-
2011	2,848,204	-0-

The above audit fees are inclusive of the following: (a) Other assurance related services by the External Auditor that are reasonably related to the performance of the audit or review of the Bank's financial statements and (b) All Other Fees. Fees paid to professional partnerships like SGV are not subject to withholding tax.

The Audit Committee is directly responsible in selecting and appointing the independent public accountants. Annually, the Committee recommends that the Board request shareholder ratification of the appointment of the independent public accountants. The Committee is also responsible for setting the compensation of the independent public accountants and periodically reviews the fees charged for all permitted audit-related expenses and other services. It is also their responsibility to evaluate and, when appropriate, to remove the independent public accountants.

At present, the Audit Committee is composed of: Raul O. Serrano as Chairman with Imelda S. Singzon, Carlos G. Chung, Henry Y. Uy, and Teresita Ang See as Members.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

There were no changes and disagreement with accountants on matters of accounting and financial disclosure.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

(1) Attached hereto is the list of directors of the Bank. For the list of executive officers of the Bank, please refer to Annex "**B**".

Directors of the Registrant

NAME	OFFICE	AGE	CITIZENSHIP	YEAR OF ASSUMPTION OF OFFICE
Eric O. Recto	Chairman of the Board/Director	49	Filipino	2011
Mario J. Locsin	Vice Chairman / Director	60	Filipino	2011
Henry Y. Uy	Vice Chairman/Director	65	Filipino	2012/1986
Nina D. Aguas	President & CEO/ Director	60	Filipino	2012
Bunsit Carlos G. Chung	Director	62	Filipino	1997
Ralph C. Nubla, Jr.	Director	62	Filipino	1984
Patrick Sugito Walujo	Director	37	Indonesian	2011
Gregorio T. Yu	Director	54	Filipino	2011
Tomas I. Alcantara	Independent Director	66	Filipino	2012
Jose P. Leviste, Jr.	Independent Director	68	Filipino	2012
Roberto M. Macasaet, Jr.	Independent Director	54	Filipino	2010
Teresita Ang See	Independent Director	63	Filipino	2010
Raul O. Serrano	Independent Director	73	Filipino	2010
Imelda S. Singzon	Independent Director	62	Filipino	2010

BOARD OF DIRECTORS

ERIC O. RECTO, *Chairman of the Board and Director*
Mr. Recto, Filipino, 49 years old, was elected Director and Vice Chairman of the Board on July 26, 2011, appointed Co-Chairman of the Board on January 18, 2012 and Chairman of the Board on May 23, 2012. He is Vice Chairman and Director of Alphaland Corporation, Alphaland Balesin Island Club, Inc., The City Club at Alphaland Makati Place, Inc., Alphaland Marina Club, Inc., Atok-Big Wedge Co., Inc., PhilWeb Corporation, and Petron Corporation, President and Director of ISM Communications Corporation, a director of San Miguel Corporation and Manila Electric Company (MER), and a member of the Board of Supervisors of Acentic GmbH. Prior to joining the Bank, Mr. Recto served as Undersecretary of Finance of the Republic of the Philippines from 2002 to 2005, in charge of handling both International Finance Group and the Privatization Office. Before his stint with the government, he was chief finance officer of Alaska Milk Corporation and Belle Corporation. Mr. Recto has a degree in Industrial Engineering from the University of the Philippines as well as an MBA from Johnson School, Cornell University.

MARIO J. LOCSIN, *Vice Chairman and Director*
Mr. Locsin, Filipino, 60 years old, was elected Director in October 27, 2011 and appointed as Vice Chairman of the Board on January 18, 2012. He is also Executive Vice President and a Director of ISM Communications Corporation and a Director of PhilWeb Corporation and Atok-Big Wedge, Co., Inc. He is also Independent Director of Alphaland Corporation, Alphaland Balesin Island Club, Inc., The City Club at Alphaland Makati Place, Inc. and Alphaland Marina Club, Inc. In the past, he served as the President and COO of Eastern Telecommunications Philippines, Inc. and Atok-Big Wedge Co., Inc., a Director of Belle

Corporation, APC Group, Southwest Resources, Philippine Long Distance Telephone Co., and Pilipino Co., as well as a Director, Executive Vice President and COO of Philippine Airlines. Mr. Locsin is also a consultant of Acentic Asia Ltd. He holds a Master's degree in Business Administration from the University of San Francisco (1980), and a degree in Lia-Honors Math from De La Salle University (1973).

HENRY Y. UY, *Vice Chairman and Director*
Mr. Uy, Filipino, 65 years old, was elected Director on July 18, 1986 and Vice Chairman of the Board on August 29, 2012. He is the Chairman of the Board of PBCom Finance Corporation and Vice President of Echague Realty Corporation. In the past, he served as the Bank's President and CEO. He graduated magna cum laude in Business administration and has an MBA from De La Salle University.

NINA D. AGUAS, *President and Chief Executive Officer, Director*
Ms. Aguas, Filipino, 60 years old, was elected Director, President and Chief Executive Officer on August 29, 2012. In the past, she served as Managing Director for Private Banking, Asia Pacific, ANZ group. She was with the Citigroup for over 25 years in critical management positions. Ms. Aguas is a Certified Public Accountant.

BUNSIT CARLOS G. CHUNG, *Director*
Mr. Chung, Filipino, 62 years old, was elected Director on June 17, 1997. He is President of Supima Holdings, Inc., and Director of Hambrecht & QUIST (Phils.), La Suerte Cigar & Cigarette Factory, Century Container Corporation, Bicutan Container Corporation, Tosen Foods Corporation and PBCom Finance Corporation. He is also a member of the Board of Trustees of Xavier School Inc., Mother Ignacia National Social Apostolate Center, Seng Guan Temple and Kim Siu Ching Family Association. Mr. Chung has a degree in Economics from De La Salle University as well as an MBA from the University of Southern California.

RALPH C. NUBLA, JR., *Director*
Mr. Nubla, Filipino, 62 years old was elected Director on March 24, 1982. He is Director of PBCom Finance Corporation, R. Nubla Securities and Echague Realty Corporation. He was Executive Director of the Bank in 2004, Senior Vice President in 1982, Vice Chairman in 2000 and Chairman of the Board in 2010. He has more than 30 years of experience in banking. He was also President of CNC Investment Inc. He graduated from Ateneo de Manila University with a Bachelor of Science degree in Commerce.

GREGORIO T. YU, *Director*
Mr. Yu, Filipino, 54 years old, was elected Director on July 26, 2011. At present, he is Chairman of the Board of CATS Motors, Inc., Vice Chairman of the Board & Chairman of the Executive Committee of Sterling Bank of Asia, and a member of the Board of Trustee of the Government Service Insurance System. He is a Director of the Philippine National Reinsurance Corporation, iRemit, Inc., Phil. Equity Fund, Inc., Prople BPO, Inc., Jupiter Systems, Inc. as well as Director & Treasurer of CMB Partners, Inc. In the past, he was President and CEO of Belle Corporation, Pacific Online Systems Corporation, and Sinophil Corporation, Vice Chairman of APC Group, Inc., and Director of Cebu Holding, Inc. Mr. Yu graduated summa cum laude in Bachelor of Arts in Economics from De La Salle University and holds a Master of Business Administration from the University of Pennsylvania (The Wharton School).

PATRICK SUGITO WALUJO, *Director*
Mr. Walujo, Indonesian, 37 years old, was elected Director in July 26, 2011. He is co-founder and co-managing director of Northstar Equity Partners, a leading private equity fund with a primary focus on Indonesia. Northstar is the Indonesian Partner of TPG Capital, one of the world's leading private equity funds. Before co-founding Northstar, he was Senior Vice President of Pacific Century Group in Tokyo, Japan. Prior to working at Pacific Century Group Japan, he was an associate at the investment banking division of Goldman, Sachs & Co., in London and New York. Mr. Walujo holds a degree in Bachelor of Science in Operations Research and Industrial Engineering from Cornell University, USA and is Ernst & Young Indonesia's 2009 Young Entrepreneur of the Year.

TOMAS I. ALCANTARA, *Independent Director*
Mr. Alcantara, Filipino, 66 years old, was elected Independent Director on March 28, 2012. He is the Chairman and President of Alsons Consolidated Resources, Inc. Alto Power Management Corporation, Alsons Development and Investment Corporation, Lima Land, Inc., and Sarangani Agricultural Co., Inc. among others. He is a Director of Holcim Philippines and DBP-Daiwa Securities Corp. and Independent Director of PhilWeb Corporation. He studied at the Ateneo de Manila University, The Columbia University Graduate School of Business, and the Harvard Business School. He was formerly the Chairman of the Manila Economic and Cultural Office (MECO) and served the Philippine government in various capacities as Undersecretary for Industry Investments, Department of Trade and Industry, Vice Chairman and managing Head of the Board of Investments, and Special envoy of the President of the Philippines to APEC.

JOSE P. LEVISTE, JR., *Independent Director*
Mr. Leviste, Filipino, 68 years old, was elected Independent Director on March 28, 2012. He is currently the Chairman of Oceanagold (Phils.), Inc., Constellation energy Corporation (Phils.) and Philippine Business Leaders Forum. He is Vice Chairman of MBMI Resources (Phils.) He is also President of Italpinas Euroasian Design & Development Corporation. He is Director of Pico de Loro Beach & Country Club. He was appointed Member of the Governing Council for Agriculture, Forestry, and Natural Resources Research and Development of the Department of Science and Technology 2011. He graduated from Ateneo de Manila University (with honors) and has a degree in Bachelor of Science in Economics. He earned his Master of Arts in Economics from Fordham University, New York, New York in 1967, Masters in Business Administration from Columbia University, New York, New York in 1968 and Doctor of Humanities from Nueva Viscaya State University (Honoris Causa) in 2007.

ROBERTO M. MACASAET, JR., *Independent Director*
Mr. Macasaet, Filipino, 54 years old was elected Independent Director on October 15, 2010. He is the President & CEO of Associated Medical & Clinical Services Inc. He is a Director of Maxicare Healthcare Corporation and Coconut Industry Investment Fund (CIIF). In the past, he was Vice President of Citadel's Holdings Inc. and held various positions in senior management with Fil Hispano Holdings Corporation (formerly Fil Hispano Ceramics Inc.). He has a degree in Bachelor of Arts from Tufts University as well as a Master of Business degree from Northwestern University.

TERESITA A. SEE, *Independent Director*
Ms. See, Filipino, 63 years old was elected Independent Director on October 15, 2010. Her experience broadly encompass that of being an educator and resource person, author, cultural and social development worker, peace and anti-crime advocate. She was founding President of Kaisa Para sa Kaunlaran, a Chinese-Filipino NGO, President of Kaisa Heritage Center which houses Bahay Tsinoy, Secretary Treasurer of International Society for the Study of Chinese Overseas (ISSCO). Visiting Lecturer at Ateneo de Manila University, Spokesperson of Citizens Action Against Crime (CAAC), and the Founding Chairperson of Movement for Restoration of Peace and Order (MRPO). She is also the Chairman of Philippine National Police Foundation. She obtained her A.B. Political Science As well as a Masters degree in Asian Studies (candidate) from the University of the Philippines.

RAUL O. SERRANO, *Independent Director*
Mr. Serrano, Filipino, 73 years old was elected was elected Director on October 15, 2012. In the past, he was a member of the Board of Trustees of the Government Service Insurance System. He held various managerial positions in Solidbank Corporation and Allied Banking Corporation until retirement. He holds a degree in Bachelor of Science in Commerce major in Finance from Ateneo de Naga University.

IMELDA S. SINGZON, *Independent Director*
Ms. Singzon, Filipino, 62 years old, was elected Independent Director on October 15, 2012. Currently, she is Executive Vice President for Examination and Resolution Sector of the Philippine Deposit Insurance Corporation. In the past, she was Independent Director of Export Industry Bank, First Senior Vice President of the Philippine National Bank, Vice President of New York-based First Philippine Fund, a director in various government corporations such as the National Food Authority, Livelihood Corporation, Fertilizer and Pesticides Authority. She holds a degree in Bachelor of Science in Statistics as well as a

Certificate in Development Economics (with distinction) from the University of the Philippines.

RODOLFO MA. A. PONFERRADA, *Corporate Secretary, Corporate Information Officer*
Mr. Ponferrada, Filipino, 36 years old, was elected Corporate Secretary on July 26, 2011. He is Senior Vice President & Corporate Secretary of PhilWeb Corporation, Corporate Secretary and Director of Alphaland Corporation and Atok-Big Wedge Co., Inc. He is also Corporate Secretary of The City Club at Alphaland Makati Place, Inc., Alphaland Balesin Island Club, Inc., and ISM Communications Corporation. He is likewise Assistant Corporate Secretary of Eastern Telecommunications Philippines, Inc. He is a member of the Board of Directors of Social Housing Finance Corporation. He earned his Bachelor of Science Major in Management (Honors Program) magna cum laude from Ateneo de Manila University in 1997 and his Bachelor of Laws cum laude from the University of the Philippines in 2001. He is a member of the Philippine Bar.

JOVITA D.S. LARRAZABAL, *Assistant Corporate Secretary*
Ms. Larrazabal, Filipino, 31 years old, was elected Assistant Corporate Secretary on June 27, 2012. She is also currently the Assistant Corporate Secretary, Corporate Information Officer, and Legal Counsel of ISM Communications Corporation and the Assistant Corporate Secretary of Alphaland Corporation, The City Club at Alphaland Makati Place, Inc., Alphaland Balesin Island Club, Inc., Alphaland Marina Club, Inc., and Atok-Big Wedge Co., Inc. Ms. Larrazabal holds a Juris Doctor degree from the Ateneo de Manila – Law School and a Bachelor of Arts major in Management Economics from the Ateneo De Manila University – College of Arts and Sciences. She is a Member of the Philippine Bar.

EXECUTIVE OFFICERS

HORATIO S. AYCARDO, *Executive Vice President & Chief Operating Officer*
Mr. Aycardo, Filipino, 56 years old was hired on August 29, 2012. is a highly motivated Senior Manager with more than 33 years in information technology, 26 years of which was spent with Citibank. He holds Bachelor of Science degree in Mathematics from the University of the Philippines.

DANIEL L. ANG TAN CHAI, *Executive Vice President & Chief Finance Officer*
Mr. Ang Tan Chai, Filipino, 54 years old was hired on January 28, 2013. His professional banking experience includes as an SVP, Chief Finance Officer of PAL and Air Philippines, FVP, Chief Finance Officer of Metrobank Card Corporation, VP, Business Planning and Analysis Unit Head of Citibank, N.A. – Philippines, VP, Business Finance Manager for Consumer Banking of Standard Chartered Bank as well as VP, Country Reporting and Analysis Head of Citibank, N.A – Philippines. He holds a degree in Industrial Engineering and an MBA both from the University of the Philippines.

ANGEL M. CORPUZ, *Executive Vice President & Treasurer*
Mr. Corpuz, Filipino, 63 years old has been Treasurer of the Bank since 2001. His professional banking career spans 37 years with various financial institutions. He started with Bancom Development Corporation as a Senior Financial Analyst, and joined then Central Bank of the Philippines as Bank Executive Assistant II and through the years ultimately became Director, Head of Treasury. He later worked for Security Bank Corporation as Vice President of the International Treasury Department. After a stint in the US, he joined Land Bank as Vice President of its Treasury Group. Later, he worked for Union Bank of the Philippines as Senior Vice President of its Funds Management Group. He thereafter joined Philippine Banking Corporation which was later renamed Global Business Bank as a result of a merger - as Head of the Treasury Group with the rank of Executive Vice President. He obtained his Bachelor of Science in Business Administration Major in Finance from De La Salle University and earned his Master in Business Administration in Asian Institute of Management.

EMMANUEL S. SANTIAGO, *Executive Vice President – Enterprise Banking Segment*
Mr. Santiago, Filipino, 58 years old was hired on October 30, 2012. He was previously connected with China Bank Savings, Inc. as SVP and Head of Lending, Resident Advisor of CARD SME Bank,

Consultant – Small Medium Enterprises with the Development Bank of the Philippines, Resident Advisor of CARD MRI/International Finance Corporation (IFC) of the World Bank SME Project, Business Development Consultant to medium-sized private corporations, Chief Finance Officer to local companies, Vice President and Senior Banker of Citibank, N.A. – Philippines, Senior Vice President and Corporate Bank Head of Global Business Bank, SVP and Corporate Bank Head of Urban Bank, and Vice president of Citibank N.A., Philippines as head of Japanese Corporate Business Desk and Industry Specialist team. Mr. Santiago graduated cum laude in B.S. Agriculture from the University of the Philippines Los Baños. He holds an M.S. in Agricultural Economics from the Kansas State University in Manhattan, Kansas, USA, an Advance Graduate Studies in Corporate Finance – Doctor of Business Administration (DBA) Program form the Indiana University, Bloomington, Indiana, USA as well as a Doctor of Philosophy (Ph. D.) in Economics and Corporate Finance from Kansas State University, Manhattan, Kansas, USA.

VICTOR Q. LIM, *Executive Vice President – Prosperity Banking Segment*
Mr. Lim, Filipino, 52 years old was hired on October 30, 2012. He has a broad based experience in sales, credit and banking office administration. He was formerly EVP and Retail Banking Group head of Chinatrust Commercial Bank Philippines, Senior Asset Manager/Project Consultant of Solomon Edwards Group/Federal Insurance Corporation, Vice President and Compliance and Control Director of Citibank N.A. Shanghai, Vice President & Country Business Manager of Citibank N.A. Guam, USA, and held various managerial positions with Citibank N.A. Philippines. Mr. Lim graduated cum laude in Bachelor of Science in Physical Therapy (Rehabilitation Medicine) from the University of Sto. Tomas and a Master in Business Management from the Asian Institute of Management.

The directors of the bank are elected at the annual stockholder's meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Directorship in Other Reporting Companies

Mr. Eric O. Recto is also President of ISM Communications Corporation, Vice Chairman of Alphaland Corporation, Petron Corporation, PhilWeb Corporation, Atok-Big Wedge Co., Inc. and Director of San Miguel Corporation and Manila Electric Company.

Mr. Mario J. Locsin is a Director of Alphaland Corporation, PhilWeb Corporation, Atok-Big Wedge Co., Inc. as well as Director and Executive Vice President of ISM Communications Corporation.

Mr. Tomas I. Alcantara is also Chairman and President of Alsons Consolidated Resources, Inc., Director of PhilWeb Corporation and Holcim Philippines, Inc.

Shares of Alphaland Corporation (ALPHA), Atok-Big Wedge Co., Inc. (AB), ISM Communications Corporation (ISM), Ginebra San Miguel, Inc. (GSMI), Petron Corporation (PCOR), Manila Electric Company (MER), Alsons Consolidate Resources, Inc. (ACR), Holcim Philippines, Inc. (HLCM), PhilWeb Corporation (WEB), and San Miguel Corporation (SMC) are all listed in the Philippine Stock Exchange, Inc.

Significant Employees

There is none to disclose. The Bank currently does not employ any person who is not an executive officer but makes a significant contribution to the business.

Family Relationships

Mr. Ralph C. Nubla, Jr., is the brother-in-law of Mr. Henry Y. Uy.

(4) Involvement in Legal Proceedings

Other than what was stated under Item 3, the Bank is not aware of any other legal proceeding including without limitation any (a) bankruptcy petition, (b) conviction by final judgment, (c) order, judgment or decree, or (d) violation of a securities or commodities law, during the last five (5) years up to the date of the filing of this Statement, to which any of its Directors and Executive Officers is a party and which is material to an evaluation of their ability or integrity to act as such.

Item 10. Executive Compensation

Since the Bank obtained an exemption from the SEC to disclose the required detailed compensation information, disclosure of aggregate compensation paid or accrued during the last three fiscal years 2010 to 2012 of the Bank's Chief Executive Officer and four other most highly compensated executive officers are as follows:

	2012	2011	2010
CEO and four most highly compensated Executive officers	Nina D. Aguas President & CEO (Aug-Dec) Henry Y. Uy President & CEO (Jan-July) Alex Luis M. Pesigan Senior Vice President Juan B. Estioko First Vice President Suzanne B. Mondonedo First Vice President	Henry Y. Uy President & CEO Angel M. Corpus, Executive Vice President Juan B. Estioko First Vice President Enrique L. Luy, Jr. First Vice President Roberto B. Reyes First Vice President	Henry Y. Uy President & CEO Angel M. Corpus, Executive Vice President Guillermo B. Pablo III Senior Vice President Aurora C. Manguerra Senior Vice President Enrique L. Luy, Jr. First Vice President
Salary Bonus Other Annual Compensation	P20,331,137.51 7,835,174.42	P18,847,076.16 4,309,060.00	P13,774,373.70 3,383,047.50
TOTALS	**28,166,311.93**	**P23,156,136.16**	**P17,157,421.20**

All officers and directors as Group Unnamed			
Salary	255,699,714.32	P219,084,487.10	P210,793,216.48
Bonus	79,354,945.35	52,173,815.36	52,941,678.15
Other Annual Compensation			
TOTALS	**335,054,659.67**	**P271,258,302.46**	**P263,734,894.63**

The following is the estimated annual compensation for year 2013:

	Salary	Bonus	Other Annual Compensation	Total
Total of CEO and Four most highly compensated Executive Officers	29,373,750.00	9,791,250.00	none	39,165,000.00
All officers as a group unnamed	338,663,604.72	112,887,868.24	none	451,551,472.96

The Directors are entitled to a Director's fee for attending Board meetings. As stipulated in the By-laws, Directors are also entitled to share in the net profits to be distributed in such manner as the Board may provide but not exceeding four (4) percent.

There are no other terms and conditions with regards to employment contract between PBCom and named Executive Officers or any other more compensatory plans or arrangement except those disclosed above.

There are no Outstanding Warrants or Options held by the Directors, Officers as of December 31, 2012.

Thank Bank has no record of adjusting or amending the exercise price of stock warrants previously awarded to any of the officers and directors.

Item 11. Security Ownership of Certain Beneficial Owners and Management

A. Security Ownership of Certain Record and Beneficial Owners of more than 5 percent of the Bank's capital stock:

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	Percent
Common	ISM Communications Corporation The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Ave. cor. EDSA, Makati City Principal shareholder of the Issuer	ISM Communications Corporation The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Ave. cor. EDSA, Makati City **Roberto V. Ongpin/Eric O. Recto*	Filipino	17,460,219 (R)	
Preferred	ISM Communications Corporation The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Ave. cor. EDSA, Makati City Principal shareholder of the Issuer	ISM Communications Corporation The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Ave. cor. EDSA, Makati City **Roberto V. Ongpin/Eric O. Recto*	Filipino	45,773,540 (R) 63,233,759 (R)	36.64%
Common	Roberto V. Ongpin c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City	Compact Holdings, Inc. c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City	Filipino	6,131,801 (R)	
Preferred	Roberto V. Ongpin c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City	Compact Holdings, Inc. c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City	Filipino	15,358,446 (R) 21,490,247 (R)	12.45%
Common	Eric O. Recto PBCom Tower, 6795 Ayala Avenue cor. V.A. Rufino St., Makati City	Eric O. Recto PBCom Tower, 6795 Ayala Avenue cor. V.A. Rufino St., Makati City	Filipino	14,548,709 (R)	
Preferred	Eric O. Recto PBCom Tower, 6795 Ayala Avenue cor. V.A. Rufino St., Makati City	Eric O. Recto PBCom Tower, 6795 Ayala Avenue cor. V.A Rufino St., Makati City	Filipino	36,440,471 (R) 50,989,180 (R)	29.54%
Common	Langford Universal Finance Ltd. c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City	Langford Universal Finance Ltd. c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City **Patrick Sugito Walujo*	BVI	4,355,254 (R)	
Preferred	Langford Universal Finance Ltd. c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City	Langford Universal Finance Ltd. c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City **Patrick Sugito Walujo*	BVI	10,908,710 (R) 15,263,964 (R)	8.84%

**has the power to vote or dispose of shares held by the Corporation*

B. Security Ownership of Management

Title of Class	Name of Beneficial Owner	Citizenship	Amount and Nature of Beneficial Ownership	Percentage of Ownership
Common Preferred	Eric O. Recto	Filipino	14,548,709 (R) 36,440,471 (R) 42,980,484 (R)	29.54%
Common	Mario J. Locsin	Filipino	10 (R)	
Common Preferred	Gregorio T. Yu	Filipino	510,993 (R) 1,279,870 (R) 1,790,863 (R)	1.04%
Common	Nina D. Aguas	Filipino	10 (R)	0.00%
Common	Patrick Sugito Walujo	Indonesian	10 (R)	0.00%
Common	Ralph C. Nubla, Jr.	Filipino	10 (R)	0.00%
Common	Henry Y. Uy	Filipino	10 (R)	0.00%
Common	Carlos G. Chung	Filipino	10 (R)	0.00%
Common	Tomas I. Alcantara	Filipino	10 (R)	0.00%
Common	Jose P. Leviste Jr.	Filipino	900 (R)	0.00%
Common	Roberto M. Macasaet, Jr.	Filipino	1 (R)	0.00%
Common	Raul O. Serrano	Filipino	1 (R)	0.00%
Common	Imelda S. Singzon	Filipino	1 (R)	0.00%
Common	Teresita Ang See	Filipino	1 (R)	0.00%
Common Preferred	All directors and officers as a group	Filipino	15,060,666 (R) 37,720,341 (R) 52,781,007 (R)	30.58%

B. Voting Trust Holders of 5% or more – There is none.

On 26 July 2011, the Luy, Chung and Nubla Groups (being the then controlling shareholders of the Bank representing an aggregate of approximately 97% of the outstanding capital of the Bank) entered into a Memorandum of Agreement with the ISM Group (led by ISM Communications Corporation, Mr. Ongpin and Mr. Recto) for the acquisition by the ISM Group of a controlling interest in the Bank subject to regulatory approvals. After all regulatory approvals were obtained, the transfer of the controlling interest in the Bank to the ISM Group was consummated on 23 December 2011 through the facilities of the Philippine Stock Exchange. Other than the foregoing, no change in control has occurred since the beginning of the last Fiscal Year.

Item 12. Certain Relationships and Related Transactions

There is no transaction with or involving the Bank or its subsidiary or affiliate in which a director, executive officer or stockholder owning (10%) percent or more of total outstanding shares and members of their immediate family had or is to have a direct or indirect material interest. However, the bank grants loans to certain directors, officers, shareholders and their related interests ("DOSRI") (as it granted a loan to Triton Securities Corporation) in the ordinary course of business, under commercial terms and on an arms-length basis observing at all times the legal limits prescribed under current BSP regulations on DOSRI loans. Full disclosures of these transactions were made through reports with the appropriate regulatory agency. As of December 31, 2012, the bank is in compliance with such regulations.

PBCOM Finance Corporation is the only remaining associate of the Bank as of December 31, 2012. It is a domestic corporation incorporated in March 1980 and is engaged mainly in financing activities. The Bank, its Directors, and Executive Officers having an interest in PBCOM Finance Corporation is presented below:

Ownership Structure	% share
1. Philippine Bank of Communications	40.000
2. Julie N. Go	7.198
3. Henry Y. Uy	7.000
4. Ralph C. Nubla Jr.	5.000
5. Luy Kim Guan	3.999
6. Chung Tiong Tay	3.999
7. Carlos Bunsit G. Chung	0.001
8. Roman Anthony V. Azanza	0.001
9. Evangeline Qua	0.001
10.Others	32.801

PART V - EXHIBITS AND SCHEDULES

Item14. Exhibits and Reports on SEC Form 17-C

Date Received	Name of Report	Particulars
18 January 2012	Item No. 9 – Other Events	• Hiring of Senior Officers of the Bank • Calling of 2012 Annual Stockholders' Meeting • Quasi-Reorganization • Appointment of Co-Chairman & Vice Chairman of the Board
30 January 2012	Item No. 9 – Other Events	• Reply to SEC letter dated 12 January 2012 re 2011 Annual Stockholders' Meeting
22 February 2012	Item No. 9 – Other Events	• Hiring of Senior Officers • Agenda for the Stockholders' Meeting on 28 March 2012
28 March 2012	Item No. 9 – Other Events	• Result of the Annual Stockholders' Meeting
29 March 2012		• Clarification/Confirmation of News Article entitled: "Foreign Firms Eye PBCom"
12 April 2012	Item No. 9 – Other Events	• Reply to PSE Letter dated 3 April 2012
24 April 2012	Item No. 9 – Other Events	• Appointment /Hiring of Bank Officers
23 May 2012		• Election of Chairman & Co-Chairman of the Board
27 June 2012	Item No. 9 – Other Events	• Hiring of Senior Officer/Appointment of Assistant Corporate Secretary
20 July 2012	Item No. 9 – Other Events	• Update/Status of the Application re Amendment of Articles of Incorporation
24 July 2012	Item No. 9 – Other Events	• Appointment of President & CEO, Vice Chairman • Hiring/Promotion of Officers
29 August 2012	Item No. 9 – Other Events	• Election of Director/Appointment of Board Advisors • Hiring/Promotion of Officers
26 September 2012	Item No. 9 – Other Events	• Hiring of Bank Officers/Reorganization of Board Committees
26 September 2012	Item No. 9 – Other Events	• Assessment of the Performance of Audit Committees of Companies Listed on the Exchange
30 October 2012	Item No. 9 – Other Events	• Hiring/Appointment/Designation of Officers
12 December 2012	Item No. 9 – Other Events	• Appointment/Hiring/Promotion of Officers

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 issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 15, 2013.

By:

NINA D. AGUAS
President & CEO

DANIEL L. ANG TAN CHAI
EVP & CFO

ANGEL M. CORPUS
EVP – Treasurer

RODOLFO MA. A. PONFERRADA
Corporate Secretary

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY) S.S.

SUBSCRIBED AND SWORN to before me this APR 1 5 2013, affiants exhibiting to me their Tax Identification Numbers, as follows:

Name	TIN No.
Nina D. Aguas	106-903-400
Daniel L. Ang Tan Chai	137-000-239
Angel M. Corpuz	107-169-972
Rodolfo Ma. A Ponferrada	215-793-742

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CHRISTIAN GRANT Y. TOMAS
[illegible] Public for Makati City
[illegible] Southgate Tower
[illegible] EDSA, Makati City
[illegible] 31 December 2013
[illegible] 53102
IBP [illegible] -05-2011/Makati
[illegible] 1-10/2013
TIN No. [illegible] No. 111-0011990

ANNEX A

PHILIPPINE BANK OF COMMUNICATIONS
LIST OF BRANCHES
AS OF DECEMBER 31, 2012

BRANCH	ADDRESS	CONDITION OF PREMISES	OWNED/ LEASED	LEASE TERMS: LEASE/MO (RENT & Parking)	EXPIRATION	RENEWAL OPTIONS
Bank-Owned Properties Utilized as Branches						
1 BINONDO BANKING CENTER	214-216 Juan Luna St., Binondo, Manila	good	owned	-		
2 CAGAYAN DE ORO	Tiano Bros corner Hayes St., Cagayan de Oro City	good	owned	-		
3 CEBU	Magallanes near corner Manalili Streets, Cebu City	good	owned	-		
4 DAVAO	41 Monteverde St., Davao City	good	owned	-		
5 GENERAL SANTOS	Santiago Blvd., General Santos City	good	owned			
6 ILOILO	Ledesma corner Valeria Sts, Iloilo City	good	owned	-		
7 KORONADAL	Gen. Santos Drive, Koronadal, South Cotabato	good	owned	-		
8 Makati Banking Center	PBCOM Tower, 6795 Ayala Avenue corner V A. Rufino, Makati City	good	owned			
9 Mandaue	National Highway corner Jayme Street, Mandaue City	good	owned	-		
10 Mango	General Maxilom (Mango) Ave., Cebu City	good	owned	-		
11 Marikina	34 J.P. Rizal St., Calumpang, Marikina	good	owned	-		
12 Meralco Ave (former Julia Vargas)	C-1 Horizo Condominium, Meralco Avenue, Pasig City	good	owned	-		
13 Quirino-Davao	111 E. Quirino Avenue, Davao City	good	owned	-		
14 Tagum	Pioneer Avenue, Tagum, Davao del Norte	good	owned	-		
15 U.N. Avenue (former Mabini)	U101 & 102, Don Alfonso Cond. 1108 MH del Pilar cor. UN Ave. & Guerreo Sts., Ermita, Manila	good	owned	-		
Leased Properties Utilized as Branches						
1 Angeles	810 Henson Street Bgy. Lourdes North East, Angeles City	good	leased	60,000	31-Oct-14	
2 Annapolis	Unit 101 Victoria Plaza, 41 Annapolis St., Greenhills, San Juan	good	leased	113,435	15-Apr-14	
3 Ayala-Alabang	ALPAP II Building, Investment Drive cor. Trade St., Madrigal Busines Park, Ayala Alabang, Muntinlupa City	good	leased	160,275	31-Jan-15	
4 Bacolod	Locsin Street, Bacolod City	good	leased	76,174	31-May-13	
5 Batangas	Diego Silang St., Batangas City	good	leased	107,856	31-Jan-14	
6 BMA	Web-Jet Building, Quezon Ave., Q.C.	good	leased	61,393	30-Nov-15	
7 Congressional	Cherry Foodarama Congressional Ave., Bahay Toro, Quezon City	good	leased	204,871	31-Aug-13	
8 Corinthian Gardens	Sanso Street, Corinthian Gardens, Q.C.	good	leased	leasehold rights	30-Sep-21	
9 Cubao	Unit LGF-106, Ali Mall II Tuazon cor. Times Square, Araneta Center, Cubao, Q.C.	good	leased	228,367	31-Jan-14	
10 Dagupan	FIB Building, M.H. Del PilarStreet, Dagupan City	good	leased	53,146	15-Feb-13	
11 Dasmarinas	EVY Building Salawag-Paliparan Road Dasmariñas, Cavite	good	leased	97,154	31-Oct-14	
12 Davao Bajada (new site)	RAQ Bldg., J.P. Laurel Avenue, Bajada Street, Davao City	good	leased	120,232	30-Sep-17	
13 Echague	ERC Building, Echague cor. Isla Del Romero, Quiapo, Manila	good	leased	62,731	31-Mar-15	
14 Elcano	SHC Tower, Elcano St., San Nicolas, Manila	good	leased	127,958	29-Feb-16	
15 Greenhills	Quadstar Building, 80 Ortigas Avenue, San Juan, Metro Manila	good	leased	164,380	31-Mar-16	
16 Iligan	EBS Building, Juan Luna cor. Del Pilar Sts., Iligan City	good	leased	135,418	15-Jul-13	
17 Imus	Nuevo St., Imus, Cavite	good	leased	90,000	30-Jun-16	
18 Kalookan	298-C2 6th Avenue Ext. Caloocan City	good	leased	44,800	14-Sep-17	
19 La Union	Quezon Avenue, San Fernando City, La Union	good	leased	85,000	31-Jan-15	
20 Legaspi Village	Unit 1-A, Vernida I 120 Amorsolo St., Legaspi Vill., Makati City	good	leased	62,330	31-Jul-16	
21 Lipa	ATDRMAM Building Ayala Highway Mataas na Kahoy, Lipa	good	leased	123,635	31-Jan-14	
22 Lucena	VCCI Building Merchan cor. San Fernando, Lucena City	good	leased	72,930	15-Nov-13	
23 Malabon	Gov. Pascual Avenue, Tugatog, Malabon City	good	leased	144,348	31-Dec-13	
24 Malolos	Malolos Shopping Arcade Paseo Del Congreso, Malolos City	good	leased	52,148	15-Aug-14	
25 Mandaue-Basak	Co Tiao King Building Cebu, North Road Basak, Mandaue City	good	leased	66,565	31-Jan-14	
26 Masangkay	1004-1006 Masangkay St. Binondo, Manila	good	leased	145,312	30-Sep-15	
27 Meycauayan	Mancon Building McArthur Highway, Meycauyan City	good	leased	55,952	15-Apr-13	
28 Ongpin	Chinatown Center, 729 Ongpin Street, Sta. Cruz, Manila	good	leased	288,505	30-Sep-13	
29 Padre Rada	951 Juan Luna Street, Tondo, Manila	good	leased	88,421	14-Jul-17	
30 Paranaque	Unit 3-4, Kingsland Building Dr. A. Santos Avenue, P'que. City	good	leased	117,600	31-May-17	
31 Pasay	2492 Taft Avenue, Pasay City	good	leased	112,000	31-Oct-15	
32 Pioneer	RFM Corporate Center Pioneer cor. Sheridan Sts., Mandaluyong City	good	leased	195,394	31-May-16	
33 Quezon Ave	APC Building, 1186 Quezon Avenue, Q.C.	good	leased	176,847	30-Sep-16	
34 San Fernando	McArthur Highway Dolores, San Fernando, Pampanga	good	leased	106,193	31-Mar-14	
35 San Miguel	Unit G101OMM-CITRA Condominium, San Miguel Avenue, Ortigas Center, Pasig City	good	leased	126,960	31-Jul-15	
36 San Pablo	Rizal Avenue, San Pablo City, Laguna	good	leased	74,906	30-Apr-13	
37 San Pedro	Pacita Complex Ph 2 San Vicente. San Pedro, Laguna	good	leased	74,906	15-Oct-13	
38 Sen. Gil Puyat	Unit 101-C, Oppen Building, 349 Sen. Gil Puyat Avenue, Makati City	good	leased	128,766	14-Jul-17	
39 Shaw Blvd	146 Shaw Boulevard cor. San Roque St., Pasig City	good	leased	133,240	15-Nov-17	
40 South Gate Mall Branch	Unit T06 and T07, Third Floor, Alphaland Southgate Mall, 2258 Chino Roces Avenue corner EDSA, Makati City, Metro Manila	good	leased	149,690	18-Dec-16	
41 Sta. Mesa	G. Araneta Avenue, Sta. Mesa, Q.C.	good	leased		14-Jan-17	
42 Soler (relocation of Ylaya)	No. 943 Soler St., of R & S Tower, Inc., Binondo, Manila	good	leased	100,800	31-May-17	
43 Sto. Cristo	563 Sto. Cristo Street, Divisoria, Manila	good	leased	108,909	15-Sep-15	
44 T. Alonzo	T. Alonzo Street, Sta. Cruz, Manila	good	leased	leasehold rights mo. - P100,000.00	10-Sep-15	
45 Taft Nakpil	Taft Avenue cor. Nakpil St., Malate Manila	good	leased	123,810	30-Nov-13	
46 Tutuban	Prime Block Building, Tutuban Center, C.M. Recto Avenue, Manila	good	leased	20,323,520.86 leasehold rights	22-Aug-14	
47 Valenzuela	246 McArthur Highway, Karuhatan, Valenzuela	good	leased	142,710	18-May-16	
48 Zamboanga	LKG Building, Valderosa Street Zamboanga City	good	leased	68,310	17-Feb-13	
49 Zamboanga Veterans	HC Marketing Bldg. Veterans Avenue, Zamboanga City	good	leased	83,802	28-Feb-15	

PHILIPPINE BANK OF COMMUNICATIONS

LIST OF EMPLOYEES (VICE PRESIDENT AND UP)

As of December 31, 2012

ANNEX B

	Full name (last, first, middle)	Position Title	Designation	Age	Citizenship
1	AGUAS, NINA DATU	President	President & Chief Executive Officer	60	FILIPINO
2	AYCARDO, HORATIO S	Executive Vice President	Segment Head, & Chief Operating Officer	56	FILIPINO
3	CORPUS, ANGEL MAGSAYSAY	Executive Vice President	Treasurer & Head, Treasury Segment	63	FILIPINO
4	LIM, VICTOR QUEING	Executive Vice President	Head, Retail Banking Segment	52	FILIPINO
5	SANTIAGO, EMMANUEL SANTOS	Executive Vice President	Head, Institutional Banking Segment	58	FILIPINO
6	BALTAZAR, FELIMON FLORES	Senior Vice President	Head, Treasury Liquidity Group	64	FILIPINO
7	PESIGAN, ALEX LUIS MEDINA	Senior Vice President	Deputy Head, Retail Banking Segment	55	FILIPINO
8	BADURIA, JOSE JULIAN JR. EDRALIN	First Vice President	Head, Solutions Delivery Division	46	FILIPINO
9	BONIFACIO, MARIA CRISTINA MIRASOL	First Vice President	Head, Human Resources Group	58	FILIPINO
10	CANLAS, RENATO LUTCHIANG	First Vice President	Officer-In-Charge, Financial Evaluation Division	51	FILIPINO
11	DEJAN, LEILA LUNA	First Vice President	Head, Branch Service Group	58	FILIPINO
12	DIAZ, RAUL CALIMBAHIN	First Vice President	Trust Officer	62	FILIPINO
13	ESTIOKO, JUAN BAUTISTA	First Vice President	Chief Audit Executive & Head, Internal Audit Group	52	FILIPINO
14	GO, GLORIA ELENA HERRERA	First Vice President	Head, Commercial Banking Group I	65	FILIPINO
15	GO, JAMES YU	First Vice President	Head, Elite Banking Group	61	FILIPINO
16	GUIAO, BREMEL PETER ROMERO	First Vice President	Head, Credit Policy & Review Group	43	FILIPINO
17	HERNANDO, MARGARET YU	First Vice President	Executive & Corporate Affairs	56	FILIPINO
18	LAO, ERIENE CHUNG	First Vice President	Head, Information Systems Group	49	FILIPINO
19	LIM, WILBERT TE	First Vice President	Head, Branch Operations-Vismin Region	56	FILIPINO
20	MENDOZA, RICARDO RAMOS	First Vice President	Head, Consumer Finance Group	41	FILIPINO
21	MONDONEDO, SUZANNE BURGOS	First Vice President	Head, Controllership Group	48	FILIPINO
22	NAKPIL, MARY GERALDINE ANN LOPEZ	First Vice President	Head, Sales and Distribution Group	52	FILIPINO
23	QUA, EVANGELINE YU	First Vice President	Head, Corporate Banking Group I	59	FILIPINO
24	REYES, MARIA ROSARIO OCAMPO	First Vice President	Head, Consumer Risk Unit	45	FILIPINO
25	SANTOS, PATRICK PETER RAYMUNDO	First Vice President	Head, Corporate and Commercial Lending	43	FILIPINO
26	USON, RAUL MARTIN J	First Vice President	Head, Branch Operations Group	50	FILIPINO
27	VINLUAN, EVELYN DIAZ	First Vice President	Chief Risk Executive & Head, Risk Management Group	61	FILIPINO
28	YU, CAROLINA ONG	First Vice President	Head, Binondo Marketing Unit	60	FILIPINO
29	ALBA, JASON JOAQUIN	Vice President	Head, Legal Services Group	39	FILIPINO
30	ALCANTARA, FROILAN MIGUEL GATHALIAN	Vice President	Deputy Risk Executive	53	FILIPINO
31	ARVISU, ALMA ROXANNE ROXAS	Vice President	Head, Area Branch Operations	50	FILIPINO
32	BARTOLOME JR., ENRIQUE ROASA	Vice President	Head, Operations Group	56	FILIPINO
33	BAUTISTA, EDITHA NATIVIDAD	Vice President	Head, Asset Marketing Division	57	FILIPINO
34	BELTRAN, ANTONIO QUIAZON	Vice President	Head, North Luzon Region	59	FILIPINO
35	BUGIA, VILMA VIAJAR	Vice President	Head, Commercial Banking Group II	59	FILIPINO
36	CUATICO, ROSE MARGARET TAN	Vice President	Head, Compliance Group	60	FILIPINO
37	DE LA ROSA, ROMEO GERONA	Vice President	Deputy Head, Human Resources Group	64	FILIPINO
38	DELOS REYES, AGNES YOLANDA D	Vice President	Head, Facilities Management Group	56	FILIPINO
39	DOMINGUEZ, DANILO	Vice President	Senior Trader	44	FILIPINO
40	DOROTAN, EDDIE ABEL C	Vice President	Deputy Head, Institutional Banking Segment	29	FILIPINO
41	GARCIA, MA. ROSARIO LOURDES SAGALA	Vice President	Head, Portfolio Management Division	51	FILIPINO
42	HILARIO, ALMARIO AGAWIN	Vice President	Head, Corporate Security Division	62	FILIPINO
43	LEDESMA, JOSE RENDON	Vice President	Deputy Head, BDG & Head, Vismin Region	59	FILIPINO
44	PUA, MICHAEL ZEE	Vice President	Head, Retail Product Development Group	39	FILIPINO
45	RODRIGUEZ, CARMINIA BOCALING	Vice President	Head, Marketing Communications & Campaigns	53	FILIPINO
46	SANTOS, MA. SOCORRO INDIONGCO	Vice President	Head, Application Systems Division	55	FILIPINO
47	VICENTE, DEOGRACIAS ANTONIO	Vice President	Head, Treasury Operations Divisions	73	FILIPINO

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

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

BOA/PRC Reg No 0001,
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 ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philippine Bank of Communications
PBCom Tower, 6795 Ayala Avenue
corner V. A. Rufino Street, Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Philippine Bank of Communications (the Bank) as at and for the years ended December 31, 2012 and 2011, included in this Form 17-A, and have issued our report thereon dated February 27, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Bank's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, as Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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

February 27, 2013

PHILIPPINE BANK OF COMMUNICATIONS
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2012

Annex 68-C

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

AS OF DECEMBER 31, 2012

PHILIPPINE BANK OF COMMUNICATIONS

PBCom Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City

Unappropriated Retained Earnings, beginning		(9,655,254,740)
Adjustments:		
Less: Non-actual/unrealized income net of tax		
Fair value adjustment of Investment Property resulting to gain adjustment due to deviation from PFRS/GAAP-gain	320,038,074	
Equity in net income of associate	9,710,160	329,748,234
Unappropriated Retained Earnings, as adjusted, beginning		(9,985,002,974)
Net Income based on the face of AFS		**968,082,966**
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate	458,318	
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalent) Unrealized actual gain	19,206,713	**19,665,031**
Add: Non actual losses		
Loss on fair value adjustment of investment property (after tax)		4,491,698
Net Income Actual/Realized		**952,909,633**
Total Retained Earnings, End		
Available for Dividend		**(9,032,093,341)**

Annex 68-D

PHILIPPINE BANK OF COMMUNICATIONS

DISCLOSURES OF RECEIVABLE/PAYABLE WITH RELATED PARTIES ELIMINATED DURING CONSOLIDATION

AS OF DECEMBER 31, 2012

NONE TO REPORT

Annex 68-E

SCHEDULE A. Financial Assets

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received and accrued
(i)		(ii)	
Available for Sale Investments			
Quoted:			
Government Securities	14,652,688,185	16,744,365,118	1,295,873,452
Equity Securities	6 shares	23,130,000	
		16,767,495,118	**1,295,873,452**
Unquoted:			
Equity Securities at cost	3,869,626 shares	18,329,753	
Allowance for Impairment		(7,022,320)	
		11,307,433	
TOTAL		**16,778,802,551**	**1,295,873,452**
Loans and Receivables			
Receivables from customers:			
Corporate loans		13,083,053,247	586,140,537
Consumer loans		344,830,381	4,929,818
		13,427,883,628	**591,070,355**
Unearned discounts and capitalized interest		(13,110,367)	
		13,414,773,261	**591,070,355**
Unquoted debt securities			
Metro Rail Transit bonds		2,249,847,364	444,235,444
Home Guaranty Corporation bonds		1,004,123,136	48,709,977
RFM Corporation bonds		122,250,000	5,771,069
Accounts receivable		846,595,178	
Accrued interest receivable		831,144,496	
Sales contracts receivable		125,758,447	10,962,185
		18,594,491,882	**1,100,749,030**
Allowance for credit losses		2,636,997,342	
TOTAL		**15,957,494,540**	**1,100,749,030**

(i)	*Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a)securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by the others for which the amounts in the aggregate are not more than two percent of total assets.*
(ii)	*State the basis of determining the amounts shown in the column. This column shall be totalled to correspond to the respective balance sheet caption or captions.*
(iii)	*This column may be omitted if all amounts that would be shown are the same as those in the immediately preceding column.*

Annex 68-E

SCHEDULE B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal

Name and Designation of Debtor	Beginning Balance as of December 31, 2011	Additions	Amounts Collected	Amounts written off	Current	Not Current	Ending Balance as of December 31, 2012
ABELLA, GABBY T.	166,933	12,163			179,096		179,096
ABINALES, EUFRONIO	232,353		77,571		154,783		154,783
ACBAY, MAXIMO A.	145,189	87,728			232,917		232,917
ADELANTAR, RHEALYN D.		238,468			238,468		238,468
AGUILAR, VIVIAN V.	171,439		171,439		-		-
ALBA, JASON J.		280,249			280,249		280,249
ALOG, RENE F.	154,009		6,309		147,700		147,700
ANGELES, DANILO F.	166,114		39,610		126,504		126,504
AREVALO, DELIA L.		122,635			122,635		122,635
ARVISU, RICHARD O.	1,096,606		53,048		1,043,558		1,043,558
ARVISU, ROSEMARIE R.		113,700			113,700		113,700
ASCUE V, GERONIMO JO	123,152		14,662		108,490		108,490
BALGOA, MA. LOURDES	104,658	30,272			134,930		134,930
BALTAZAR, RODRIGO SA	105,922		105,922		-		-
BARANDA, NANCY M.	163,000	51,000			214,000		214,000
BARTOLOME, ENRIQUE	527,622		254,558		273,064		273,064
BELLO, MARCUS BRIAN		100,598			100,598		100,598
BERNARDINO, EVELYN L	126,716		126,716		-		-
BORGUETE, DANTE FLOR	104,825		104,825		-		-
BORLADO, ARLENE T.	205,616		85,733		119,883		119,883
CABRERA, JEANNIE A.	241,714		241,714		-		-
CAINGLET, REY B.		156,041			156,041		156,041
CAMPO, LUZVIMINDA H.	556,292		31,862		524,430		524,430
CANICO, CRISANTO	285,097		105,464		179,633		179,633
CANO, MARY JULIENNE		209,457			209,457		209,457
CAPISTRANO, JANICE D.		107,846			107,846		107,846
CAPONONG, RAY F.	129,600	12,738			142,338		142,338
CARINO, SHIRLEY G.	181,420		7,846		173,573		173,573
CARO, ANNIE A.	113,400		113,400		-		-
CARRILLO, JENNETTE M.		112,368			112,368		112,368
CASTRO, JESSIE ARLIG	131,184		30,775		100,409		100,409
CASTILLO, AL ANTHONY		161,988			161,988		161,988
CATLI, JEAN U.	215,994		18,790		197,203		197,203
CENTENO, AIDA T.	164,081		164,081		-		-
CHAN, IRWYN D.	1,470,758		44,322		1,426,436		1,426,436
CHUA, LINET A.		132,473			132,473		132,473
CORPUS, MA. CRISTINA	145,826		16,977		128,848		128,848
CUEVA, LADYLY S.		125,056			125,056		125,056
CUEVAS, FLORENCIA J.	156,406		50,289		106,117		106,117
DAYAN, DENNIS R.	594,307		45,597		548,710		548,710
DEL ROSARIO, JHOANNA	145,906	16,585			162,491		162,491
DELA CRUZ, LILIBETH G.		113,797			113,797		113,797
DELOS ANGELES, SEAN		240,000			240,000		240,000
DOMINGUEZ, DANILO	359,964		113,865		246,099		246,099
ELEMOS, ANABELLE M.		135,700			135,700		135,700
ESPERANZA JR., RODOL		127,488			127,488		127,488
ESTIOKO, JUAN B.	502,267		161,655		340,612		340,612
EVORA, CRISTINA R.	491,698	5,478			497,175		497,175
GERVACIO, LEDA MICHE	114,785	13,920			128,705		128,705
GUEVARA, SIGFRED LAT	451,295		131,980		319,315		319,315
IBARRA, ROMEO L.	237,571		237,571		-		-
IGUALADA, JAZEL		134,292			134,292		134,292
JUMPAY, MARVIE S.	123,150	13,422			136,572		136,572
LACHICA, ARNOLD T.	322,607		49,103		273,504		273,504
LACUATA, ARIEL S.	188,706		188,706		-		-
LASTIMOSA, RAINELDA	2,591,644		2,591,644		-		-
LAZATIN, DANILO M. J		152,243			152,243		152,243
LEGADA, ANNABEL BAND	336,016		37,647		298,369		298,369
LIMAREZ, MANUEL G.		143,310			143,310		143,310
LOPEZ, EVELYN A.		913,447			913,447		913,447
MACABIDANG, NONILON	106,179		2,930		103,249		103,249
MADRID, PAUL ALLEN G	125,051		125,051		-		-
MALLARI, MA. TEODORA	157,478		36,994		120,484		120,484
MANAGO, RACQUEL B.		285,574			285,574		285,574
MANANSALA, ALMIRA LE	112,801	12,727			125,528		125,528
MANUEL, JOAN A.	213,055		85,923		127,132		127,132
MAURICIO, EVANGELINE	131,654	1,195			132,849		132,849
MIRANDA, DANILO JR.		151,552			151,552		151,552
MORALES, RAZON J.	1,097,652		224,995		872,658		872,658
MORENO, CECILIA S.		238,075			238,075		238,075
MUNIZ, JOEL C.		275,099			275,099		275,099
NICOL, WILSON P.		130,139			130,139		130,139
ONG, SUSAN JANE L.	147,738		16,216		131,522		131,522
OPENIANO, MARICRIS E.		109,179			109,179		109,179
ORDEJON, PERCIVAL J.	829,263		829,263		-		-
ORIG, LEILA A.	152,253		152,253		-		-
PACAANAS, ARTURO B.		151,555			151,555		151,555
PACUDAN, MELCHOR S.		125,613			125,613		125,613
PAGUIA, LINO M. JR.	103,267		103,267		-		-

Name and Designation of Debtor	Beginning Balance as of December 31, 2011	Additions	Amounts Collected	Amounts written off	Current	Not Current	Ending Balance as of December 31, 2012
PARASO, ROMULUS P.		365,108			365,108		365,108
PEGARIDO, BENEDICTO	304,226		25,363		278,863		278,863
PEREZ, ERLINA T.	151,500		151,500		-		-
PINEDA, MA. CYNTHIA		123,752			123,752		123,752
POLICARPIO, MERLY S.		143,417			143,417		143,417
QUEZON, VIRGILIO J.		107,050			107,050		107,050
RABANG, VIVIEN MIRAN	104,398	15,064			119,462		119,462
RALLETA, HENRY S.	109,556		109,556		-		-
RANO, ELDER E.		168,683			168,683		168,683
REANO, NARCISO C.		244,627			244,627		244,627
REPALBOR, TERESITA L	207,499		46,483		161,016		161,016
REYES, CATERINA D.	191,843	7,717			199,560		199,560
REYES, ROWENA A.	127,403	29,127			156,530		156,530
RIGONAN, MA. LOURDES	110,645	121,583			232,228		232,228
ROMERO, ROMELYN	779,933		182,193		597,740		597,740
RONCAL, MARLON S.	122,960		122,960		-		-
SANCHEZ, JAIME B. JR	347,879		26,145		321,734		321,734
SANTIAGO, ELVIRA J.	408,878		115,935		292,942		292,942
SANTIAGO, EMMANUEL S.		750,000			750,000		750,000
SILVA, VANESSA A.		114,384			114,384		114,384
STA. MARIA, ALDREEN	148,810		11,194		137,616		137,616
TACDERAS, VERONICA B	318,109		62,000		256,109		256,109
TIANGCO, NOEL CLIMAC	103,704		103,704		-		-
UBALDE, KARLA ANDREA		177,985			177,985		177,985
VALES, SUZETTE MARIE		127,608			127,608		127,608
VELASCO, ROMAN E.		101,302			101,302		101,302
VILLAFLOR, DIVINA B.	265,118		96,229		168,889		168,889
VILLANUEVA, ALFRED G.		107,028			107,028		107,028
VILLANUEVA, ERLINDA	120,792	75,933			196,725		196,725
VILLAVICENCIO, RAYMU	114,805	59,790			174,595		174,595
ZABALLERO, EDITHA O.	407,534		28,634		378,900		378,900
T O T A L	**21,467,827**	**8,385,328**	**8,082,473**	-	**21,770,682**	-	**21,770,682**

(i)	*Show separately accounts receivables and notes receivable. In case of notes receivable, indicate pertinent information such as the due date, interest rate, terms of repayment and collateral, if any.*
(ii)	*If collection was other than in cash, explain.*
(iii)	*Give reasons for write off.*

Annex 68-E

Philippine Bank of Communications
SCHEDULE C. Amounts Receivable from Related Parties which are elimated during the consolidation of Financial Statements
As of December 31, 2012

	Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
				(i)	(ii)			
		NONE TO REPORT						
(i)	*If collection was other than in cash, explain.*							
(ii)	*Give reasons for write off.*							

Annex 68-E

Philippine Bank of Communications
SCHEDULE D. Intangible Assets - Others Assets
As of December 31, 2012

Description (i)	Beginning balance	Additions at cost (ii)	Charged to cost and expenses (ii)	Charged to other accounts	Other changes additions (deductions) (iii)	Ending Balance
Branch License	-				-	-
Software Cost	2,825,568	56,561,834	(6,967,828)			52,419,574

(i) The information required shall be grouped into (a) intangibles shown under the caption in intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications.

(ii) For each change representing anything other than an acquisition, clearly state the nature of the change and other accounts affected. Describe cost of additions representing other than cash expenditures.

(iii) If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

** Provision for impairment*

Annex 68-E

Philippine Bank of Communications
SCHEDULE E. Long Term Debt
As of December 31, 2012

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long term debt" in related balance sheet	Amount shown under caption "Long Term Debt" in related balance sheet	Interest Rate	Maturity Date
(i)		(ii)	(iii)		
Bills Payable - PDIC	7,640,000,000		6,636,777,800	1%	26-Mar-14

(i)	*Include in this column each type of obligation authorized.*
(ii)	*This column is to be totaled to correspond to the related balance sheet caption.*
(iii)	*Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.*

Annex 68-E

Philippine Bank of Communications
SCHEDULE F. Indebtedness to Related Parties (Long-Term Loans from Related companies)
As of December 31, 2012

	Name of related party	Balance at beginning of period	Balance at end of period
	(i)		(ii)
	NONE TO REPORT		
(i)	*The related parties named shall be grouped as in Schedule D. The information called for shall be stated separately for any persons whose investments were shown separately in such related schedule.*		
(ii)	*For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.*		

Annex 68-E

Philippine Bank of Communications
SCHEDULE G. Guarantees of Securities of Other Issuers
As of December 31, 2012

	Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
			(i)		(ii)
	NONE TO REPORT				
(i)	*Indicate in a note any sinificant changes since the date of the last balance sheet filed. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.*				
(ii)	*There must be a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", Guarantee of interest", or Guarantee of dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.*				

Annex 68-E

Philippine Bank of Communications
SCHEDULE H. Capital Stock
As of December 31, 2012

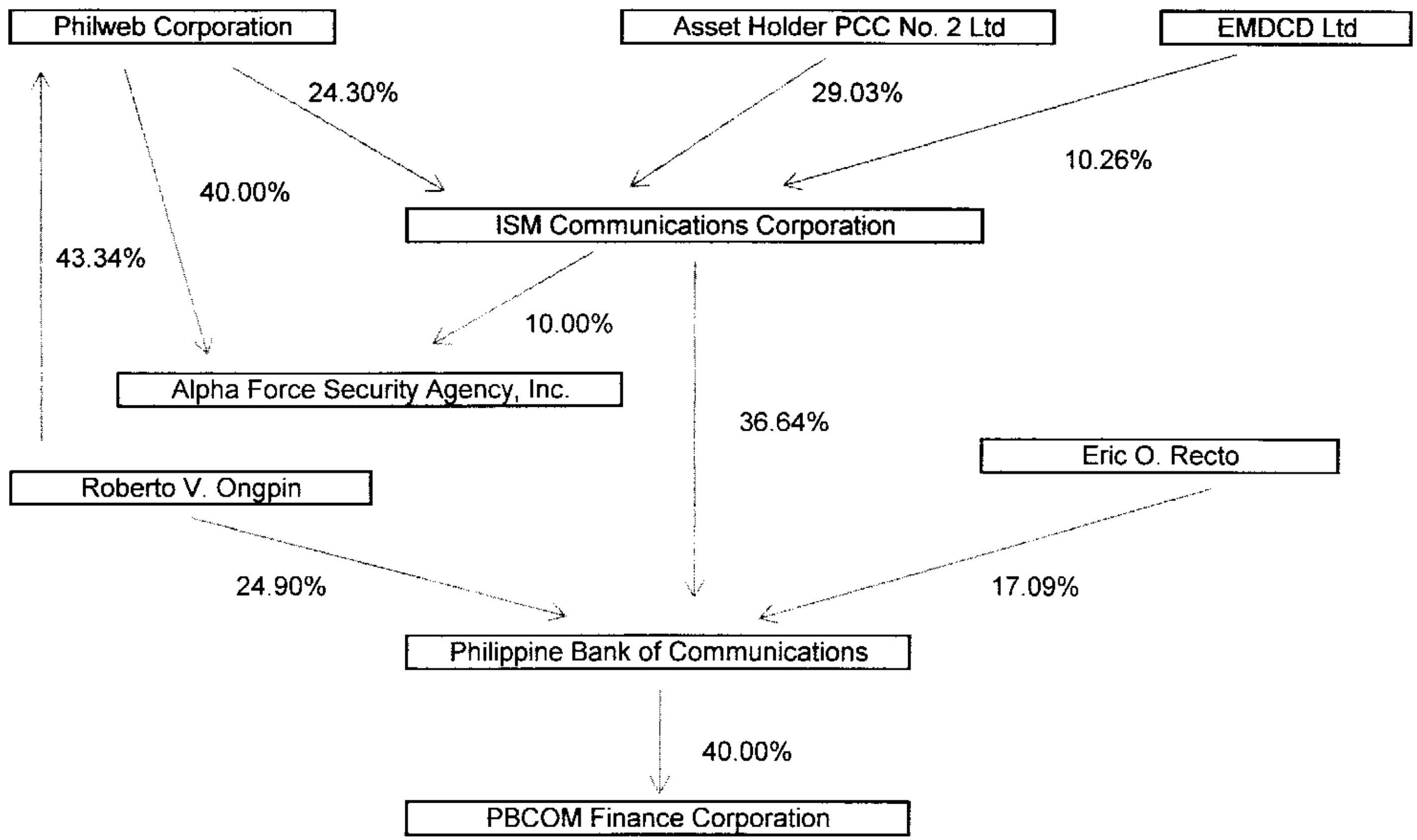
	Title of issue	Number of shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
	(i)				(ii)		(iii)
	COMMON	145,000,000	52,598,965			21,192,487	
	PREFERRED	120,000,000	120,000,000			53,078,787	

(i) Include in this column each type of issue authorized.

(ii) Related parties referred to include persons for which separate financial statements are filed and those included in consolidated financial statements, other than the issuer of the particular security.

(iii) Indicate in a note any significant changes since the date of the last balance sheet filed.

PHILIPPINE BANK OF COMMUNICATIONS
Map of Group Structure
As of December 31, 2012



PHILIPPINE BANK OF COMMUNICATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not early adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		√			
Conceptual Framework Phase A: Objectives and qualitative Characteristics					
PFRSs Practice Statement Management Commentary					
Philippine Financial Reporting Standards					
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	√			
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate				√
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters				√
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters				√
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters				√
	Amendments to PFRS 1: Government Loans	√			
PFRS 2	Share Based Payment				√
	Amendments to PFRS 2: Vesting Conditions and Cancellations				√
	Amendments to PFRS 2: Group Cash settled Share-based Payment Transactions				√
PFRS 3 (Revised)	Business Combinations				√
PFRS 4	Insurance Contracts				√
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts				√
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations				√
PFRS 6	Exploration for and Evaluation of Mineral Resources				√
PFRS 7	Financial Instruments: Disclosures	√			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	√			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not early adopted	Not Adopted	Not Applicable
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	√			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	√			
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities*		√		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		√		
PFRS 8	Operating Segments	√			
PFRS 9	Financial Instruments		√		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		√		
PFRS 10*	Consolidated Financial Statements		√		
PFRS 11*	Joint Arrangements		√		
PFRS 12*	Disclosure of Interests in Other Entities		√		
PFRS 13*	Fair Value Measurement		√		
Philippine Accounting Standards					
PAS 1 (Revised)	Presentation of Financial Statements	√			
	Amendment to PAS 1: Capital Disclosures	√			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation				√
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income*		√		
PAS 2	Inventories				√
PAS 7	Statement of Cash Flows	√			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	√			
PAS 10	Events after the Reporting Period	√			
PAS 11	Construction Contracts				√
PAS 12	Income Taxes	√			
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	√			
PAS 16	Property, Plant and Equipment	√			
PAS 17	Leases	√			
PAS 18	Revenue	√			
PAS 19	Employee Benefits	√			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not early adopted	Not Adopted	Not Applicable
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	√			
PAS 19 * (Amended)	Employee Benefits		√		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	√			
PAS 21	The Effects of Changes in Foreign Exchange Rates	√			
	Amendment: Net Investment in a Foreign Operation				√
PAS 23 (Revised)	Borrowing Costs				√
PAS 24 (Revised)	Related Party Disclosures	√			
PAS 26	Accounting and Reporting by Retirement Benefit Plans				√
PAS 27	Consolidated and Separate Financial Statements				√
PAS 27 * (Amended)	Separate Financial Statements		√		
PAS 28	Investments in Associates	√			
PAS 28 * (Amended)	Investments in Associates and Joint Ventures		√		
PAS 29	Financial Reporting in Hyperinflationary Economies				√
PAS 31	Interests in Joint Ventures				√
PAS 32	Financial Instruments: Disclosure and Presentation	√			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation				√
	Amendment to PAS 32: Classification of Rights Issues				√
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities*		√		
PAS 33	Earnings per Share	√			
PAS 34	Interim Financial Reporting	√			
PAS 36	Impairment of Assets	√			
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	√			
PAS 38	Intangible Assets	√			
PAS 39	Financial Instruments: Recognition and Measurement	√			
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	√			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not early adopted	Not Adopted	Not Applicable
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transaction				√
	Amendments to PAS 39: The Fair Value Option				√
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts				√
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	√			
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	√			
	Amendment to PAS 39: Eligible Hedged Items				√
PAS 40	Investment Property	√			
PAS 41	Agriculture				√
Philippine Interpretations					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities				√
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments				√
IFRIC 4	Determining Whether an Arrangement Contains a Lease	√			
IFRIC 5	Rights to Interests Arising from Decommisioning. Restoration and Environmental Rehabilitation Funds				√
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment				√
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies				√
IFRIC 8	Scope of PFRS 2				√
IFRIC 9	Reassessment of Embedded Derivatives	√			
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	√			
IFRIC 10	Interim Financial Reporting and Impairment	√			
IFRIC 11	PFRS 2- Group and Treasury Share Transaction				√
IFRIC 12	Service Concession Arrangements				√
IFRIC 13	Customer Loyalty Programmes				√
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	√			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not early adopted	Not Adopted	Not Applicable
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement	√			
IFRIC 16	Hedges of a Net Investment in a Foreign Operation				√
IFRIC 17	Distributions of Non-cash Assets to Owners				√
IFRIC 18	Transfers of Assets from Customers				√
IFRIC 19	Extinguishing Financial Liabilities with Equity Investment				√
IFRIC 20*	Stripping Costs in the Production Costs Phase of a Surface Mine				√
SIC - 7	Introduction of the Euro				√
SIC - 10	Government Assistance - No Specific Relation to Operating Activities				√
SIC - 12	Consolidation - Special Purpose Entities				√
	Amendment to SIC - 12: Scope of SIC 12				√
SIC - 13	Jointly Controlled Entities - Non Monetary Contributions by Ventures				√
SIC - 15	Operating Leases - Incentives				√
SIC - 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets				√
SIC - 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders				√
SIC - 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	√			
SIC - 29	Service Concession Arrangements: Disclosures				√
SIC - 31	Revenue - Barter Transactions Involving Advertising Services				√
SIC - 32	Intangible Assets - Web Site Costs				√

PHILIPPINE BANK OF COMMUNICATIONS
FINANCIAL SOUNDNESS INDICATORS

	2012	2011
LIQUIDITY RATIOS		
Liquid assets	78.73%	92.97%
Liquid Assets	24,687,476,773	25,863,195,273
Total Deposits	31,356,315,070	27,817,891,714
Liquid Assets to Total Assets	53.87%	62.44%
Liquid Assets	24,687,476,773	25,863,195,273
Total Assets	45,831,167,398	41,421,034,400
Loans & Receivables (net) - excluding unquoted debt securities, AIR & AR to Deposit	37.48%	23.94%
Loans and receivables (net)	11,752,957,693	6,659,433,779
Total Deposits	31,356,315,070	27,817,891,714
SOLVENCY RATIOS		
Debt Ratio	90.0%	91.7%
Total Liabilities	41,269,268,263	37,987,804,961
Total Asset	45,831,167,398	41,421,034,400
Debt to Equity Ratio	904.7%	1106.5%
Total Liabilities	41,269,268,263	37,987,804,961
Total Equity	4,561,899,135	3,433,229,439
Asset to Equity Ratio	1004.7%	1206.5%
Total Asset	45,831,167,398	41,421,034,400
Total Equity	4,561,899,135	3,433,229,439
Interest Rate Coverage Ratio	177.58%	173.68%
Earnings before interest & taxes	2,880,110,553	2,738,952,337
Interest Expense	1,621,868,544	1,577,053,703
PROFITABILITY RATIOS		
Return on Assets	2.22%	1.99%
Net Income	968,082,966	796,362,304
Average Assets	43,626,100,899	40,048,874,681
		-17.63%
Return on Equity	24.22%	41.84%
Net Income	968,082,966	796,362,304
Average Equity	3,997,564,287	1,903,211,295
Net Interest Margin	4.37%	3.92%
Net Interest Income	1,518,017,391	1,336,993,076
Average Earning Assets	34,700,734,265	34,097,272,508
Cost to Income Ratio	56.47%	51.56%
Total Operating Expenses	1,632,547,559	1,236,932,442
Total Operating Income	2,890,789,568	2,398,831,076

PBCOM
Philippine Bank of Communications

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The Management of Philippine Bank of Communications (the Company) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012, 2011 and 2010, including the additional components attached therein, in accordance with the prescribed Philippine Financial Reporting Standards. 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 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 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.

ERIC O. RECTO
Chairman of the Board

NINA D. AGUAS
President and Chief Executive Officer

DANIEL L. ANG TAN CHAI
Chief Finance Officer

Signed this 27th day of February 2013

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) SS.

SUBSCRIBED AND SWORN TO before me this APR 02 2013 at MAKATI CITY, affiants, Eric O. Recto, Nina D. Aguas, and Daniel L. Ang Tan Chai, exhibiting to me their TIN 108-730-891, 106-903-400 and 107-169-972, respectively.

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Book No. 29
Series of 2013

ATTY. [illegible] LUZ
NOTARY PUBLIC
Until December 31, 2013
Appt. No. M-521, Makati City
IBP #89?793, May 22, 2012-RSM
PTR #3685485, Jan. 16, 2013-Makati
S.C. Roll No. 59597
MCLE Compliance No. IV-0011330
Unit 6E Cityland Herrera Tower
[illegible] St. cor. Valero St.
Salcedo Village, Makati City

COVER SHEET

PW-686

SEC Registration Number

PHILIPPINE BANK OF COMMUNICATIONS

(Company's Full Name)

PBCom Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City

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

Daniel L. Ang Tan Chai

(Contact Person)

830-7000

(Company Telephone Number)

12 31

Month *Day*

(Fiscal Year)

AAFS

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

383

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

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

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

BOA/PRC Reg. No. 0001,
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 Bank of Communications
PBCom Tower, 6795 Ayala Avenue
corner V. A. Rufino Street, Makati City

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Bank of Communications (the Bank) which comprise the statements of financial position as at December 31, 2012 and 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 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 Bank as at December 31, 2012 and 2011 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2012, in accordance with Philippine Financial Reporting Standards.

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 Notes 32 and 33 to the financial statements, respectively, 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 Bank of Communications. 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.

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

February 27, 2013

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Cash and Other Cash Items (Notes 15 and 16)	**₱551,097,752**	₱369,163,701
Due from Bangko Sentral ng Pilipinas (Notes 15 and 16)	**5,511,066,971**	6,040,783,141
Due from Other Banks	**887,142,721**	514,811,974
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 7)	**993,804,210**	2,830,082,240
Available-for-Sale Investments (Note 8)	**16,778,802,551**	16,143,744,549
Loans and Receivables (Notes 9 and 28)	**15,957,494,540**	10,521,538,433
Investment in an Associate (Note 10)	**12,168,477**	11,710,160
Property and Equipment (Note 11)		
At cost	**960,161,779**	582,767,709
At appraised value	**377,667,700**	369,300,000
Investment Properties (Note 12)		
Condominium units for lease	**3,220,308,474**	3,466,407,778
Foreclosed properties	**375,813,301**	432,234,394
Other Assets (Note 13)	**205,638,922**	138,490,321
	₱45,831,167,398	₱41,421,034,400
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Notes 15 and 28)		
Demand	**₱5,788,176,888**	₱4,883,897,485
Savings	**2,751,041,326**	2,424,174,911
Time	**22,817,096,856**	20,509,819,319
	31,356,315,070	27,817,891,715
Bills Payable (Note 16)	**7,823,512,656**	7,355,846,372
Outstanding Acceptances	**32,322,191**	57,006,115
Manager's Check	**67,050,176**	33,800,311
Accrued Interest, Taxes and Other Expenses (Note 17)	**275,180,453**	275,086,724
Deferred Tax Liabilities - net (Note 27)	**432,716,410**	428,223,235
Other Liabilities (Note 18)	**1,282,171,307**	2,019,950,490
	41,269,268,263	37,987,804,962
Equity		
Preferred stock (Note 20)	**3,000,000,000**	3,000,000,000
Common stock (Note 20)	**5,259,896,500**	5,259,896,500
Deposit for future stock subscription (Note 20)	**3,552,598,165**	2,373,032,602
Additional paid-in capital	**476,011,662**	476,011,662
Surplus reserves (Note 20)	**105,772,314**	105,772,314
Deficit	**(8,687,171,774)**	(9,655,254,740)
Net unrealized gains on available-for-sale investments (Note 8)	**672,789,188**	1,723,163,315
Revaluation increment on land (Note 11)	**186,888,809**	173,260,544
Cumulative translation adjustment	**(4,885,729)**	(22,652,759)
	4,561,899,135	3,433,229,438
	₱45,831,167,398	₱41,421,034,400

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF INCOME

	Years Ended December 31		
	2012	2011	2010
INTEREST INCOME			
Trading and investment securities (Note 23)	**₱1,295,873,452**	₱1,258,635,032	₱1,404,858,680
Loans and receivables (Notes 9 and 28)	**1,100,749,030**	962,579,022	1,120,577,647
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**44,024,361**	41,694,258	23,939,421
Deposits with other banks and others	**15,222,937**	34,495,207	35,225,129
Others (Note 18)	**684,016,154**	608,226,075	515,354,449
	3,139,885,934	2,905,629,594	3,099,955,326
INTEREST AND FINANCE CHARGES			
Bills payable, borrowings and others (Note 16)	**837,304,670**	771,151,927	719,633,489
Deposit liabilities (Notes 15 and 28)	**784,563,874**	805,901,776	877,180,998
	1,621,868,544	1,577,053,703	1,596,814,487
NET INTEREST INCOME	**1,518,017,390**	1,328,575,891	1,503,140,839
Trading and securities gain - net (Notes 8 and 23)	**754,081,491**	235,993,409	531,852,632
Rent income (Notes 12 and 25)	**295,759,044**	289,688,114	302,863,960
Service charges, fees and commissions	**153,588,462**	127,672,852	135,578,117
Profit from assets sold or exchanged (Note 12)	**123,280,774**	8,307,707	5,040,333
Foreign exchange gain (loss) - net	**24,297,249**	45,892,901	(2,530,596)
Income from trust operations (Note 22)	**15,386,124**	19,707,792	13,450,562
Fair value gain (loss) from investment properties (Note 12)	**(4,491,698)**	314,939,246	5,098,828
Miscellaneous (Note 10)	**10,870,732**	28,053,164	26,665,410
TOTAL OPERATING INCOME	**2,890,789,568**	2,398,831,076	2,521,160,085
Compensation and fringe benefits (Notes 24 and 28)	**737,466,242**	622,260,886	607,210,898
Taxes and licenses	**323,632,540**	294,569,756	314,383,383
Occupancy and other equipment-related costs (Note 25)	**97,034,374**	90,520,051	67,169,854
Depreciation and amortization (Note 11)	**77,892,134**	58,806,651	76,544,552
Provision for (reversal of) credit and impairment losses - net (Note 14)	**(1,265,107)**	10,649,067	197,786,006
Miscellaneous (Note 26)	**397,787,376**	160,126,031	342,236,653
TOTAL OPERATING EXPENSES	**1,632,547,559**	1,236,932,442	1,605,331,346
INCOME BEFORE TAX	**1,258,242,009**	1,161,898,634	915,828,739
PROVISION FOR INCOME TAX (Note 27)	**290,159,043**	365,536,330	328,477,119
NET INCOME (Note 29)	**₱968,082,966**	₱796,362,304	₱587,351,620
Basic/Diluted Earnings Per Share (Note 29)	**₱5.61**	₱4.61	₱3.40

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
NET INCOME	**₱968,082,966**	₱796,362,304	₱587,351,620
OTHER COMPREHENSIVE INCOME (LOSS)			
Securities gains from sale of AFS investments taken to profit or loss (Note 8)	**(738,069,044)**	(220,166,698)	(500,900,079)
Changes in fair value of AFS investments (Note 8)	**(312,305,083)**	177,509,632	655,373,667
Fair value gain on securities reclassified from HTM to AFS (Note 30)	**–**	–	1,788,332,814
Net movement in revaluation increment, net of tax (Note 11)	**13,628,265**	(19,251,400)	79,576,809
Net movement in cumulative translation adjustment	**17,767,030**	(47,450,153)	22,682,635
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(1,018,978,832)**	(109,358,619)	2,045,065,846
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱50,895,866)**	₱687,003,685	₱2,632,417,466

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF CHANGES IN EQUITY

	Preferred Stock (Note 20)	Common Stock (Note 20)	Deposit for Future Stock Subscription (Note 20)	Additional Paid-in Capital	Surplus Reserves (Note 20)	Deficit	Net Unrealized Gains (Losses) on Available-for-Sale Investments (Note 8)	Revaluation Increment on Land (Note 11)	Cumulative Translation Adjustment	Total Equity
Balance at January 1, 2012	**₱3,000,000,000**	**₱5,259,896,500**	**₱2,373,032,602**	**₱476,011,662**	**₱105,772,314**	**(₱9,655,254,740)**	**₱1,723,163,315**	**₱173,260,544**	**(₱22,652,759)**	**₱3,433,229,438**
Proceeds from deposit for future stock subscription	–	–	**1,179,565,563**	–	–	–	–	–	–	**1,179,565,563**
Total comprehensive income (loss) for the year	–	–	–	–	–	**968,082,966**	**(1,050,374,127)**	**13,628,265**	**17,767,030**	**(50,895,866)**
Balance at December 31, 2012	**₱3,000,000,000**	**₱5,259,896,500**	**₱3,552,598,165**	**₱476,011,662**	**₱105,772,314**	**(₱8,687,171,774)**	**₱672,789,188**	**₱186,888,809**	**(₱4,885,729)**	**₱4,561,899,135**
Balance at January 1, 2011	₱3,000,000,000	₱5,259,896,500	₱–	₱476,011,662	₱105,772,314	(₱10,451,617,044)	₱1,765,820,381	₱192,511,944	₱24,797,394	₱373,193,151
Proceeds from deposit for future stock subscription	–	–	2,373,032,602	–	–	–	–	–	–	2,373,032,602
Total comprehensive income (loss) for the year	–	–	–	–	–	796,362,304	(42,657,066)	(19,251,400)	(47,450,153)	687,003,685
Balance at December 31, 2011	₱3,000,000,000	₱5,259,896,500	₱2,373,032,602	₱476,011,662	₱105,772,314	(₱9,655,254,740)	₱1,723,163,315	₱173,260,544	(₱22,652,759)	₱3,433,229,438
Balance at January 1, 2010	₱3,000,000,000	₱5,259,896,500	₱–	₱476,011,662	₱105,772,314	(₱11,038,968,664)	(₱176,986,021)	₱112,935,135	₱2,114,759	(₱2,259,224,315)
Total comprehensive income for the year	–	–	–	–	–	587,351,620	1,942,806,402	79,576,809	22,682,635	2,632,417,466
Balance at December 31, 2010	₱3,000,000,000	₱5,259,896,500	₱–	₱476,011,662	₱105,772,314	(₱10,451,617,044)	₱1,765,820,381	₱192,511,944	₱24,797,394	₱373,193,151

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,258,242,009**	₱1,161,898,634	₱915,828,739
Adjustments to reconcile income before income tax to net cash generated from (used in) operations:			
Securities gains from sale of available-for sale investments (Notes 8 and 23)	**(738,069,044)**	(220,166,698)	(500,900,079)
Accretion of interest on bills payable (Note 16)	**706,659,555**	624,051,417	551,013,332
Amortization of unearned income credited to interest income - others (Note 18)	**(684,016,154)**	(608,226,075)	(515,354,449)
Accretion of interest on unquoted debt securities (Note 9)	**(362,449,029)**	(435,980,820)	(377,161,835)
Profits from assets sold or exchanged (Note 12)	**(123,280,774)**	(8,307,707)	(5,040,333)
Depreciation and amortization (Note 11)	**77,892,134**	58,806,651	76,544,552
Fair value loss (gain) on investment properties (Note 12)	**4,491,698**	(314,939,246)	(5,098,828)
Provision for (reversal of) credit and impairment losses (Note 14)	**(1,265,107)**	10,649,067	197,786,006
Equity in net earnings of an associate (Note 10)	**(458,317)**	(410,520)	(257,260)
Reversal of provision for tax assessments (Note 26)	**–**	(197,871,861)	–
Gain from bond exchange (Note 8)	**–**	–	(22,977,176)
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Loans and receivables	**(5,021,968,744)**	3,156,049,792	(378,412,454)
Other assets	**(58,878,950)**	19,274,877	18,501,837
Increase (decrease) in the amounts of:			
Deposit liabilities	**3,538,423,355**	210,243,286	(954,926,843)
Manager's checks	**33,249,865**	(219,511)	(7,829,139)
Accrued interest, taxes and other expenses	**85,256**	123,654,733	(66,285,144)
Other liabilities	**(55,008,094)**	(20,882,075)	(8,100,984)
Net cash generated from (used in) operations	**(1,426,350,341)**	3,557,623,944	(1,082,670,058)
Income taxes paid (Note 17)	**(291,498,080)**	(249,004,094)	(274,371,253)
Net cash provided by (used in) operating activities	**(1,717,848,421)**	3,308,619,850	(1,357,041,311)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in interbank loans receivable (Notes 7 and 31)	**2,590,590**	–	(43,840,000)
Acquisitions of:			
Available-for-sale investments	**(31,507,478,853)**	(26,697,370,076)	(53,682,379,284)
Property and equipment (Note 11)	**(205,371,194)**	(37,375,416)	(19,781,161)
Software cost (Note 13)	**(56,561,834)**	(4,587,247)	(5,714,646)
Investment properties (Notes 12 and 31)	**(6,420,586)**	(3,291,223)	(7,706,251)
Proceeds from:			
Sale of available-for-sale investments	**30,559,174,488**	26,748,012,437	55,150,135,926
Disposals of investment properties (Note 12)	**176,999,772**	141,604,008	194,446,717
Disposals of property and equipment (Note 11)	**5,876,764**	3,368,048	4,884,817
Disposal of chattel mortgage	**4,999,999**	–	–
Dividends received from associate (Note 10)	–	–	600,000
Net cash provided by (used in) investing activities	**(1,026,190,854)**	150,360,531	1,590,646,118

(Forward)

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from deposit for future stock subscription (Note 20)	**₱1,179,565,563**	₱2,373,032,602	₱–
Availments of:			
Bills payable	**11,392,737,224**	15,076,554,633	18,506,795,761
Outstanding acceptances	**1,461,405,538**	1,049,319,401	308,926,371
Marginal deposits	**6,134,966**	14,504,421	11,757,708
Settlements of:			
Bills payable	**(11,631,730,495)**	(15,630,909,727)	(19,145,331,330)
Outstanding acceptances	**(1,486,089,462)**	(1,045,495,256)	(296,378,731)
Marginal deposits	**(4,889,901)**	(18,721,871)	(7,540,258)
Net cash provided by (used in) financing activities	**917,133,433**	1,818,284,203	(621,770,479)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**17,767,030**	(47,450,153)	22,682,635
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,809,138,812)**	5,229,814,431	(365,483,037)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**369,163,701**	379,603,692	395,600,974
Due from Bangko Sentral ng Pilipinas	**6,040,783,141**	2,439,553,972	2,082,639,243
Due from other banks	**514,811,974**	556,586,784	578,317,738
Interbank loans receivable and securities purchased under resale agreements (Notes 7 and 30)	**2,786,242,240**	1,105,442,177	1,790,111,707
	9,711,001,056	4,481,186,625	4,846,669,662
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**551,097,752**	369,163,701	379,603,692
Due from Bangko Sentral ng Pilipinas	**5,511,066,971**	6,040,783,141	2,439,553,972
Due from other banks	**887,142,721**	514,811,974	556,586,784
Interbank loans receivable and securities purchased under resale agreements (Notes 7 and 30)	**952,554,800**	2,786,242,240	1,105,442,177
	₱7,901,862,244	₱9,711,001,056	₱4,481,186,625

OPERATIONAL CASH FLOWS FROM INTEREST

	Years Ended December 31		
	2012	2011	2010
Interest received	**₱2,079,200,603**	₱1,844,654,473	₱2,281,289,133
Interest paid	**914,291,196**	944,847,047	1,061,612,561

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philippine Bank of Communications (the Bank) is a publicly listed domestic commercial bank organized in the Philippines primarily to engage in commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services through a network of 64 local branches.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on August 23, 1939. On June 21, 1988, the board of directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate life of the Bank, which expired on August 23, 1989, for another 50 years or up to August 23, 2039. The Amended Articles of Incorporation were approved by the SEC on November 23, 1988.

The Bank acquired a license to operate as an expanded commercial bank from the Bangko Sentral ng Pilipinas (BSP) on December 24, 1993. On March 31, 2000, the BSP's Monetary Board approved the amendment of the Bank's license to a regular commercial banking.

The Bank's principal place of business is at the PBCom Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City.

<u>Rehabilitation Plan</u>
On March 15, 2004, the Bank and its majority stockholders entered into a Financial Assistance Agreement (FAA) with the Philippine Deposit Insurance Corporation (PDIC) under the following salient provisions:

1. Fresh capital infusion from the existing major stockholders amounting to ₱3.00 billion;
2. Compliance at all times with a risk-based capital adequacy ratio (RBCAR) of at least 12.50%, with any shortfall thereof to be covered by additional capital infusion from the major stockholders (Note 20);
3. Prohibition against the sale of, or lien or encumbrances on the controlling interest;
4. Sale of certain nonperforming assets (NPAs) to a Special Purpose Vehicle (SPV) and amortization of losses from such sale based on SPV guidelines, with the necessary modifications or amendments thereto;
5. Maximum direct loan from PDIC amounting to ₱7.64 billion payable at the end of ten (10) years with interest rate of 1.00% per annum;
6. Unless the loan is prepaid in accordance with the FAA, the major stockholders agree to absolutely divest, sell or transfer their controlling interest to a strategic third party investor; and
7. Prior approval from PDIC on the declaration, distribution, or payment of cash or stock dividends; effecting any profit sharing or distribution of bonuses to directors and officers of the Bank; transactions or activities not in accordance with the rehabilitation plan; and any single major capital expenditure.

On March 25, 2004, the BSP through its Monetary Board approved the revised Financial Recovery and Rehabilitation Program of the Bank subject to the following conditions, among others:

(a) infusion of the ₱3.00 billion fresh capital (as required under the FAA discussed above) within 30 days from the approval date of the rehabilitation plan; and

(b) existing appraisal increment reserve shall be allowed as part of unimpaired capital for purposes of computing the regulatory ratios.

On March 26, 2004, the major stockholders infused the ₱3.00 billion fresh capital to the Bank as advances for future stock subscriptions, awaiting the approval of the Securities and Exchange Commission (SEC) on the amendment of the Bank's Articles of Incorporation covering the increase in the authorized capital stock of the Bank by the creation of new preferred shares. On April 1, 2006, the SEC approved the capital increase of the Bank from ₱14.50 billion to ₱17.50 billion.

Financial Assistance
Proceeds from the PDIC loan amounting to ₱7.64 billion were used by the Bank to purchase government securities (GS collateral), which were pledged to PDIC to secure such obligation (Notes 8 and 16). The 12.375% interest income on these securities, net of all taxes and the corresponding 1.00% interest expense on the PDIC loan, represents PDIC's income support to the Bank. Any interest income in excess of 85.00% of the actual losses from the sale of NPAs to an SPV shall inure to PDIC's benefit. The actual loss on the sale of the NPAs amounting to ₱10.77 billion, which was charged on the year it was incurred, is the difference between the net book value of the NPAs and the proceeds from such sale.

For regulatory purposes, the loss was allowed under the regulations issued by the BSP for banks and financial institutions availing the provisions of Republic Act No. 9182, The Special Purpose Vehicle Act of 2002, to be deferred and amortized to profit or loss over ten years.

On September 29, 2011, the Bank requested for the substitution of the government securities currently being used as collateral for the ₱7.64 billion PDIC loan with other obligations of the Republic of the Philippines and/or other acceptable risk-free instruments. With the prevailing favorable market conditions, the existing GS Collateral provided a key opportunity for the Bank to counteract the income support deficiency amidst the full recognition of the SPV losses.

On January 5, 2012, the PDIC approved the Bank's request for the substitution of the government securities pledged as collateral for its ₱7.64 billion loan from PDIC, subject to the following conditions:

1. The existing government securities shall be replaced only with a similar type of government securities maturing not earlier than the March 2014 loan maturity but no later than 2020, with interest enough to (i) cover 20.00% final tax and 1.00% interest due to PDIC and (ii) provide continuing income support to the Bank up to March 2014 as originally intended under the 2004 FAA (Note 8);
2. The substitution of the existing government securities shall be allowed in tranches with a minimum of ₱500.00 million per tranche and must be completed within a 4-month period reckoned from the 1st tranche of government securities substitution. Once the substitution of the entire ₱7.64 billion government securities have been completed, no further substitution shall be allowed by PDIC until the loan matures in March 2014;
3. The existing government securities or a portion thereof, shall be released only after the substitute government securities has been pledged to PDIC;
4. During the substitution period and until the settlement in full of the ₱7.64 billion loan from PDIC, the Bank commits to maintain a total market value of the government securities at ₱7.80 billion (Note 16);
5. A periodic determination of the market value of the collateral aspect shall be made on a monthly basis and every time a substitution is made and in cases of significant interest rate movement in the market;

6. In the event of shortfall or decrease in the market value of the substitute government securities, the Bank is bound to deliver additional collateral as may be acceptable to PDIC, to restore and maintain the market value of government securities collateral to at least ₱7.80 billion. PDIC may allow release of excess collateral upon written request of the Bank;
7. Any yield (including the gain as a result of the substitution) on the substitute government securities in excess of the cap 85.00% of the actual SPV losses, shall inure to the benefit of PDIC, pursuant to the FAA;
8. In no case shall any portion of the PDIC income support including the gain as a result of the substitution be used to declare, distribute or pay cash or stock dividends, or effect any profit sharing or distribution of bonuses to directors and officers of the Bank.

On November 14, 2012, the BOD of PDIC has approved the request of the Bank for the extension of the substitution to December 31, 2013 to complete the GS Collateral substitution process.

As at December 31, 2012 and 2011, total income received by the Bank which includes the gain arising from the sale of GS Collateral, net of all taxes and the corresponding 1.00% interest expense on the PDIC loan, amounted to ₱6.14 billion and ₱5.28 billion, respectively. The total income received by the Bank from the income support is below 85.00% of the actual losses incurred from the sale of NPAs.

Strategic Third Party Investor
On July 26, 2011, pursuant to the FAA, the major shareholders of the Bank, namely the Chung, Luy, and Nubla Groups, signed a Memorandum of Agreement (MOA) with ISM Communications Corporation (the “ISM Group”), involving the sale of their entire stake in the Bank to the ISM Group and the commitment of the Chung and Nubla groups to reinvest the proceeds of the sale of their respective shares amounting to ₱2.80 billion in the Bank.

On October 31, 2011, the Monetary Board approved ISM Group's acquisition of the controlling interest in the Bank.

On December 23, 2011,the ISM Group’s acquisition of the Bank was successfully transacted through the Philippine Stock Exchange via a special block sale.

On December 27, 2011, the Chung and Nubla Groups reinvested ₱2.37 billion as advance subscription to the Bank’s common shares (see Note 20), with the balance of ₱407.84 million paid on March 2012. On April 4, 2012, the ISM Group also made subscription payments amounting to ₱22.71 million.

<u>BSP Approvals</u>
The BSP, in its Resolution No. 2088 dated December 14, 2012, approved the request of the Bank to book ₱1.90 billion revaluation increment resulting from the revaluation of PBCom Tower and allowed the Bank to include the revaluation increment as part of unimpaired and qualifying capital in computing for net worth and capital adequacy ratio.

2. Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for derivative instruments, available-for-sale (AFS) investments and investment properties that are measured at fair value and land, classified as ‘Property and equipment’, that is measured at appraised value. All values are rounded to the nearest peso unless otherwise stated.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine peso 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 of these units are combined after eliminating inter-unit accounts and transactions.

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

Presentation of Financial Statements
The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 19.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS adopted as of January 1, 2012, which did not have any impact on the accounting policies, financial position or performance of the Bank:

New and amended standards and interpretations
- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendment)
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendment)

Significant Accounting Policies
<u>Foreign Currency Translation</u>
The financial statements are presented in Philippine pesos, which is the Bank's presentation currency.

The books of accounts of the RBU are maintained in Philippine pesos, while those of the FCDU are maintained in USD.

RBU
As at statement of financial position date, foreign currency-denominated monetary assets and liabilities of the RBU are translated in Philippine peso 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 PDS weighted average rate (WAR) for the year. Foreign exchange differences arising from the restatement of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss 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.

Non-monetary 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
As at statement of financial position date, the assets and liabilities of the FCDU are translated into the Bank's presentation currency (the Philippine peso) at the PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at PDSWAR for the year. Exchange differences arising on translation are taken directly to the statement of comprehensive income as 'Cumulative translation adjustment'.

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 securities purchased under resale agreements (SPURA) with original maturities of three months or less from dates of placements and that are subject to insignificant risks of changes in value.

SPURA
The Bank enters into short-term purchases of securities under resale agreements of identical securities with the BSP. Resale agreements are contracts under which a party purchases securities and resells such securities to the same selling party at a specified future date at a fixed price. The amounts advanced under resale agreements are carried as SPURA in the statement of financial position. SPURA are carried at cost. Interest earned on resale agreements is reported as 'Interest income' in the statement of income.

Financial Instruments - Initial recognition and subsequent measurement
Date of recognition
Regular way purchases and sales of financial assets, except for derivatives, are recognized on settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Bank. Any change in fair value of unrecognized financial asset is recognized in the statement of income for assets classified as financial assets at fair value through profit or loss (FVPL); and it is recognized in equity for assets classified as AFS investments. Loans and receivables are recognized when cash is advanced to the borrowers while financial liabilities are recognized when cash is received by the Bank.

Initial recognition of financial instruments
All financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial instruments, except for financial assets and financial liabilities at FVPL.

The Bank classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, loans and receivables and AFS investments. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities at amortized cost. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments are acquired and their characteristics. Management determines the classification of its financial intruments at initial recognition and where appropriate, re-evaluates such designation at every statement of financial position date.

Determination of fair value
The fair value of financial instruments traded in active markets at the statement of financial position date is based on their quoted market prices or dealer price quotations (bid price for long positions and asking price for short positions), without any deduction for transaction costs.

Where the current bid and asking 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 valuation techniques, which includes discounted cash flow technique and comparison to similar instruments for which observable market prices exists.

'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 Bank recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statement of income under 'Trading and securities gain - net', unless it qualifies for recognition as some other type of asset. In cases where data used 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 Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial instruments held for trading
Financial instruments held for trading include government debt securities purchased and held principally with the intention of selling them in the near term. These securities are carried at fair value; realized and unrealized gains and losses on these instruments are recognized as 'Trading and securities gain - net' in the statement of income. Interest earned or incurred on financial instruments held for trading is reported under 'Interest income' (for financial assets) and 'Interest expense' (for financial liabilities).

As of December 31, 2012 and 2011, the Bank has no financial instruments that are held for trading.

Financial instruments designated at FVPL
Financial instruments classified in this category are designated by management on initial recognition when any of the following criteria is 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;
- 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 instruments designated at FVPL are initially recognized in the statement of financial position at fair value. Changes in fair value of financial instruments designated at FVPL are recorded in 'Trading and securities gain - net' in the statement of income. Interest earned or incurred is recognized as 'Interest income' or 'Interest expense', respectively, in the statement of income.

As of December 31, 2012 and 2011, the Bank has no financial instruments designated at FVPL.

Derivative instruments
The Bank uses derivative instruments such as currency forward and swap contracts. These derivatives are entered into as a means of managing the Bank's liquidity. Such derivative 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. Derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income.

The fair value of currency forward contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Embedded derivatives
The Bank assesses the existence of an embedded derivative when it first becomes a party to the contract and performs reassessment if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host financial or nonfinancial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized at FVPL.

The Bank determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significantly relative to the previously expected cash flows on the contract.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets or liabilities at FVPL. Changes in fair values of embedded derivatives are included in the statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As of December 31, 2012 and 2011, the Bank has no derivatives that are embedded in its financial and nonfinancial contracts.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and with fixed maturities for which the Bank has the positive intention and ability to hold to maturity. If the Bank 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 would have to be reclassified as AFS investments. Furthermore, the Bank would be prohibited to classify any financial assets as HTM investments for the following two years.

After initial recognition, these investments are subsequently measured at amortized cost using the effective interest method, less any 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 profit or loss when 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 accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA' and 'Loans and receivable'. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at FVPL
- those that the Bank, upon initial recognition, designates as AFS; and
- those for which the Bank may not cover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 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 '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.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as designated 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 government securities, treasury notes and shares of stock.

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 from reported earnings and are reported as 'Net unrealized gains (losses) on AFS investments' under 'Other Comprehensive Income' (OCI) in 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 securities gain - net' in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a specific identification basis. Interest earned on holding AFS investments are reported as 'Interest income' using the EIR. Dividends earned on holding AFS investments are recognized in the 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 'Provisions for credit and impairment losses' in the statement of income.

Financial liabilities at amortized cost
This accounting policy relates to the statement of financial position caption 'deposit liabilities', 'bills payable' and 'other borrowed funds', which are not designated at FVPL.

They are classified as such when the substance of the contractual arrangement results in the Bank 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, deposit liabilities, bills payable and similar financial liabilities not qualified as and not designated as 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.

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 amortized cost, as applicable.

<u>Derecognition of Financial Assets and Liabilities</u>
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 Bank 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 Bank 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 the control over the asset.

Where the Bank 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 Bank’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 Bank could be required to repay.

The transfer of risks and rewards is evaluated by comparing the Bank's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The Bank has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g., because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sale price plus a lender's return). The Bank has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g., because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred a fully proportionate share of the cash flows from a larger financial asset in an arrangement.

Whether the Bank has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of existing liability are substantially modified, such an exchange or modification is treated as 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.

<u>Impairment of Financial Assets</u>
The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a 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 a 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 includes HTM investments and loans and receivables, the Bank 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 estimated future cash flows are discounted at the financial asset's original EIR.

If a financial asset carried at amortized cost 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. 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, 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, 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. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit and impairment losses' in the statement of income.

If the Bank 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, 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 in 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 unemployment rates, property prices, commodity 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 Bank to reduce any differences between loss estimates and actual loss experience.

AFS investments
For AFS investments, the Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from 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 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 increases 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 comprehensive income.

Restructured loans
Where possible, the Bank 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 effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in 'Provision for credit and impairment losses' in the statement of income.

Investment in an Associate
An associate is an entity over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. The Bank's investment in an associate represents its 40.00% interest in PBCom Finance Corporation, an entity registered with the SEC. Investment in an associate is accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Bank's share of the net assets of the associate. Goodwill, if any, relating to an associate is included in the carrying value of the investment and is not amortized.

The Bank's share in an associate's post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in the associate's equity reserves is recognized directly in equity. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Bank and an associate are eliminated to the extent of the interest in the associate. Dividends received, if any, are treated as a reduction in the carrying value of the investment.

Property and Equipment
Property and equipment, except land, are stated at cost less accumulated depreciation and amortization and impairment in value. Land is stated at appraised value less any impairment in value. The appraisal values were determined by professionally qualified and independent appraisers. The revaluation increment resulting from revaluation is credited to 'Revaluation increment on land' under OCI, net of applicable deferred 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 the property and equipment have been put into operation, such as repairs and maintenance are charged against operations in the year 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.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Upon derecognition, the cost and the related accumulated depreciation and amortization and any impairment in value of the asset are removed from the accounts, and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is reflected as income or loss in the statement of income.

Depreciation and Impairment
Depreciation on property and equipment is computed using the straight-line method based on the estimated useful life (EUL) of the depreciable assets. Leasehold improvements are amortized over the EUL of the improvements or the terms of the related leases, whichever is shorter.

EUL of components of property and equipment are as follows:

	Years
Condominium property	50
Buildings and improvements	25
Leasehold improvements	20
Furniture, fixtures and equipment	5

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. Likewise, the asset's residual values are reviewed, and adjusted if appropriate, at each financial year end.

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 to which the assets are related to are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Investment Properties
Investment properties include real properties acquired in settlement of loans and receivables and investments in condominium units which are measured initially at cost including certain transaction costs.

Real properties acquired through a nonmonetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects the prevailing market conditions at the statement of financial position date. Gains or losses resulting from changes in the fair values of investment properties are recognized in the statement of income under 'Fair value gain (loss) from investment properties' in the period in which they arise. Fair values are evaluated on a periodic basis using valuation models recommended by the International Valuation Standards Committee (Note 12).

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal under 'Profit (loss) from assets sold or exchanged'.

Transfers are made to investment property 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 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.

For a transfer from investment property carried at fair value to owner-occupied property, the asset's deemed cost for subsequent accounting be its fair value at the date of change in use. For transfers from owner-occupation to investment property under the fair value model are accounted for under property and equipment up to the time from the used changed. At that date, any difference between the carrying amount of the property and the fair value is to be treated in the same way as a revaluation.

Intangible Assets

Intangible assets consist of software costs and branch licenses.

Software cost

Costs related to software purchased by the Bank for use in operations are recognized as 'Intangible assets' in the statement of financial position. Capitalized computer software cost is amortized on a straight-line basis over two to five years.

Branch licenses

These intangible assets were determined to have indefinite useful lives and are therefore not amortized. The useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Branch licenses are tested for impairment annually either individually or at the cash-generating unit level.

Impairment of Nonfinancial Assets

Investment in an associate and property and equipment

At each statement of financial position date, the Bank assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount.

Recoverable amount is the higher of an asset's [or cash-generating unit's (CGU'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 from those other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs.

Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) 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 CGU).

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against the statement of income in the period in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is charged against the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the said asset.

Intangible assets
Branch licences are tested for impairment annually at the statement of financial position date either individually or at the CGU level, as appropriate.

Software cost is assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Government Loans with Low Interest Rates
Government loans with low interest rates are recognized initially at fair value and the difference between the fair value of the loan and the proceeds of the loan is considered a form of government grant (recorded under 'Unearned income') and is recognized as income over the period of the loan using the effective interest method.

Preferred and Common Stock
Preferred and common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Additional-paid-in capital' in the statement of financial position. Incremental costs incurred which is directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Deficit
Deficit represents our net accumulated losses less cumulative dividends declared.

Deposit for Future Stock Subscription
Deposit for future stock subscriptions refer to the payments made by stockholders of the Bank on subscription to the increase in the authorized capital which cannot be directly credited to capital stock issued pending approval by the BSP and registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. Under the Financial Reporting Bulletin 006 issued in 2012, an entity should not consider a deposit for future subscription as an equity instrument unless all of the following elements are present:

a. There is a lack or insufficiency of authorized unissued shares of stock to cover the deposit;
b. The entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and
c. An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

Interest on financial instruments is recognized based on the effective interest method of accounting.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the EIR, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) including 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. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Service charges and penalties

Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectibility.

Fees and commissions

Loan fees that are directly related to acquisition and origination of loans are included in the cost of the loan and are amortized using effective interest method over the term of the loan. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower. Loan syndication fees are recognized upon completion of all syndication activities and where the Bank does not have further obligation to perform under the syndication agreement.

Trading and securities gain - net

Trading and securities gain - net represents results arising from trading activities including gains and losses from changes in fair value of financial assets at FVPL and disposal of AFS investments.

Dividends

Dividends are recognized when the Bank's right to receive the payments is established.

Rental

Rental income arising from leased premises is accounted for on a straight-line basis over the lease terms of ongoing leases.

Expense Recognition
Expense is recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest Expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

Retirement Benefits
The Bank's retirement cost is determined using the projected unit credit method. The retirement cost is generally funded through payments to a trustee-administered fund, determined by periodic actuarial calculations. The Bank has a noncontributory defined benefit plan. A defined benefit plan is a retirement plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates 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 recognized in the statement of income when the net cumulative unrecognized actuarial gains and losses of the plan at the end of the previous reporting year exceeded 10.00% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service costs 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 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 any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The Bank also contributes to its contributory, defined-contribution type staff provident plan based on a fixed percentage of the employees' salaries as defined in the plan.

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.

Bank as lessee
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.

Bank as lessor
Leases where the Bank does not transfer substantially all the risk 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 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.

Income Taxes
Current tax
Current tax assets and liabilities for the current period 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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises 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.

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 income will be available to allow all or part of the deferred tax assets to be utilized.

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 equity are also recognized in equity and not in the statement of income.

Provisions

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where 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 Bank 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' in the statement of income.

Contingent Assets and Liabilities

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.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing the net income for the year by the weighted average number of common shares and preferred 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 shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive potential common shares. As of December 31, 2012 and 2011, the Bank does not have dilutive potential common shares.

Dividends on Common and Preferred Shares

Dividends on common or preferred shares are recognized as a liability and deducted from equity when approved by the respective shareholders' of the Bank. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

Segment Reporting
The Bank'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 6. The Bank's assets producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

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 Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Events after the Reporting Period
Post-year-end events that provide additional information about the Bank's position at the statement of financial position date (adjusting event) are reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Future Changes in Accounting Policies
The Bank will adopt the Standards and Interpretations enumerated below when these become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective 2013
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 only affect disclosures and have no impact on the Bank'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 Standing Interpretations Committee (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 judgement 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. This standard becomes effective for annual periods beginning on or after January 1, 2013.

As a result of the assessment based on PFRS 10 requirements, the Bank will consolidate PBCom Finance Corporation, which is currently accounted for as an investment in associate, in its 2013 consolidated financial statements. The change in accounting for its investment in PBCom Finance Corporation will increase total consolidated assets by ₱9.41 million as of December 31, 2012 (₱13.54 million as of December 31, 2011) and decrease total consolidated liabilities by ₱5.29 million as of December 31, 2012 (₱1.19 million as of December 31, 2011). Consolidated revenues will also increase by ₱3.33 million for the year ended December 31, 2012 (₱3.20 million for the year ended December 31, 2011) while consolidated income before income tax will increase by ₱1.07 million for the year ended December 31, 2012 (₱0.90 million for the year ended December 31, 2011). The earnings per share will not be significantly affected upon consolidation of PBCom Finance Corporation.

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 in 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, *Interests in Joint Ventures*, and PAS 28, *Investments in Associates*. 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. This standard should be applied prospectively as of January 1, 2013. Its disclosure requirements need not be applied in comparative information provided for periods before its initial application. The Bank anticipates that the adoption of this standard will result in more extensive disclosures in the financial statements, considering it currently carries its investment properties at fair value.

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 amendments only affect presentation and have no impact on the Bank's financial position or performance. The amendments will be applied retrospectively and will result in 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 Bank has to apply the amendments retroactively to the earliest period presented.

The Bank reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Bank 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:

	As at December 31, 2012	As at December 31, 2011	As at January 1, 2011
Increase (decrease) in:			
Statements of financial position			
Retirement liability	**₱171,062,484**	₱136,968,012	₱134,417,315
Cumulative amount of actuarial losses	**187,521,284**	146,713,904	137,528,612
Deficit	**(16,458,800)**	(9,745,892)	(3,111,297)
	2012	2011	
Statement of income			
Retirement expense	**(₱16,698,611)**	(₱16,632,142)	

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence 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.

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.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal stripping costs that are incurred in surface mining activity during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Bank.

Effective 2014
PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These 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.

While the amendment is expected not to have any impact on the net assets of the Bank, 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 Bank is currently assessing impact of the amendments to PAS 32.

Effective 2015
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 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 Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

An evaluation was conducted to determine the impact of early adoption of PFRS 9 and the accounts affected are 'Available-for-sale investments', 'Receivable from customers' and 'Unquoted debt securities' under Loans and receivables. As at December 31, 2012 and 2011, the Bank opted not to early adopt PFRS 9.

Philippine Interpretation IFRIC15, *Agreement for 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 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. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Bank.

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,* 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 Bank as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements,* clarifies 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 Bank's financial position or performance.

- PAS 16, *Property, Plant and Equipment,* 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 Bank's financial position or performance.

- PAS 32, *Financial Instruments: Presentation,* 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 Bank expects that this amendment will not have any impact on its financial position or performance.

- PAS 34, *Interim Financial Reporting* 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 Bank's financial position or performance.

3. **Significant Accounting Judgments and Estimates**

The preparation of the financial statements in compliance with PFRS requires the Bank 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
In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

a) *Operating leases*
In determining whether or not there is indication of operating lease treatment, the Bank considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property, bearer of executory costs, and among others.

Bank as lessor
The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Bank as lessee
The Bank has entered into lease on premises it uses for its operations. The Bank has determined that all significant risks and rewards of ownerships of the properties it leases on operating lease are not transferrable to the Bank.

b) *Fair value of financial instruments*
The Bank 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.

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in more detail in Note 4.

c) *Contingencies*
The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. The Bank currently does not believe that these proceedings will have a material adverse effect on the financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 21).

d) *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 Bank considers the following:

1) 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);
2) the currency in which funds from financing activities are generated; and
3) the currency in which receipts from operating activities are usually retained.

e) *Fair value of investment properties*
Fair values of investment properties are determined using valuation methodologies acceptable under PFRS and valuation standards. Management determines the applicable valuation model based on the related income generated from the asset.

f) *Change in use of assets*
PAS 40 requires management to use its judgment to determine whether a property qualifies as an investment property. The Bank has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Bank are accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cashflows as a stand-alone asset are accounted for as property and equipment. The Bank assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

<u>Estimates</u>

a) *Going Concern*
The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

b) *Credit losses on loans and receivables*
The Bank reviews its loans and receivables at each statement of financial position date to assess whether an allowance 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 allowance required. 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 Bank 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 is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 9 and 14, respectively.

c) *Impairment of AFS equity investments*
The Bank determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost.

The determination of what is ‘significant’ or ‘prolonged’ requires judgment. The Bank treats ‘significant’ generally as 20.00% or more and ‘prolonged’ as greater than 12 months. In addition, the Bank evaluates among other factors, the normal volatility in share price and evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The carrying value of AFS equity investments and related allowance for impairment losses are disclosed in Notes 8 and 14, respectively.

d) *Impairment of AFS debt investments*
The Bank determines that AFS debt investments are impaired based on the same criteria as loans and receivables.

As of December 31, 2012 and 2011, no impairment losses were recognized on AFS debt investments, which comprise of bonds issued by the Philippine Government. The carrying value of AFS debt investments is disclosed in Note 8.

e) *Amortized cost of financial instruments*
The determination of amortized cost of financial instruments includes estimating future payments or receipts from such financial instruments. The Bank assesses annually whether new information warrants revisions to such estimates which will require adjusting the carrying amounts of financial instruments, except for reclassified financial assets, to reflect actual or revised estimates of cash flows. The Bank recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognized in the statement of income as income or expense.

In 2012, the Bank reassessed its estimates of the timing of settlement for its investments in MRT Bonds as a result of the rating upgrade for MRT III notes and payment of MRT notes tranches 2E and 2D based on expected maturity dates instead of the legal maturity dates; where actual payments made are two years earlier than the original estimates.

The change in estimates reflecting the revised timing of payment based on the actual payment pattern of earlier tranches of MRT notes had the effect of increasing the carrying value of the Bank’s investment in MRT amounting to $4.99 (₱204.84) million (Note 9).

f) *Impairment of nonfinancial assets*
Investment in an associate and property and equipment
The Bank assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank 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 Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value-in-use (VIU) approach for investment in an associate and fair value less cost to sell approach for property and equipment. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The carrying values of the Bank's investment in an associate and property and equipment are disclosed in Notes 10 and 11, respectively.

g) *Intangible assets*
The Bank's management conducts an annual review for any impairment in value of its intangible assets. Intangible assets are written down for impairment where the recoverable amount is insufficient to support its carrying value. The carrying value of intangible assets is disclosed in Note 13.

h) *Estimated useful lives of property and equipment and software cost*
The Bank reviews on an annual basis the estimated useful lives of property and equipment and software cost based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment and software costs would increase the recorded depreciation and amortization expense and decrease noncurrent assets. The estimated useful lives of property and equipment and software cost are disclosed in Note 2.

i) *Fair value determination of investment properties and revaluation of land*
The Bank carries its investment properties at fair value, with changes in fair value being recognized in the statement of income. In addition, it measures land at revalued amounts with changes in appraised value being recognized in OCI. The Bank engages independent valuation specialists to determine fair and appraised values on a periodic basis.

For condominium units under investment properties, the valuer used a valuation technique based on the income approach since these properties generate cash flows through rental income.

The fair value of condominium units is most sensitive to the capitalization rate. The key assumptions used to determine the fair value of condominium units are further discussed in Note 12.

j) *Present value of retirement obligation*
The cost of defined benefit retirement 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.

The expected rate of return on plan assets of the Bank was based on the average historical premium of the fund assets. 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 statements of financial position dates. Refer to Note 24 for the details of assumption used in the calculation.

The present value of the retirement obligation and fair value of plan assets are disclosed in Note 24.

k) *Recognition of deferred taxes*
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that 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 profits together with future tax planning strategies.

The Bank has been in a tax loss position over the past several years. The recognized and unrecognized deferred tax assets are disclosed in Note 27.

4. Fair Value Measurement

As of December 31, 2012 and 2011, except for the following financial instruments, the carrying values of the Bank's financial assets and liabilities as reflected in the statements of financial position and related notes approximate their respective fair values (amounts in thousands):

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Receivables from customers:				
Corporate loans	**₱11,645,345**	**₱12,282,831**	₱6,454,263	₱7,035,459
Consumer loans	**100,915**	**112,418**	88,491	84,537
Unquoted debt securities	**3,352,500**	**2,292,925**	3,023,976	2,621,362
Financial Liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time	**22,817,097**	**22,780,493**	20,509,819	20,498,073
Bills payable:				
PDIC	**6,636,778**	**7,301,950**	5,929,352	7,378,029

The methods and assumptions used by the Bank in estimating the fair value of its financial instruments are as follows:

<u>Derivative Assets</u>
Fair values are calculated by reference to the prevailing interest differential and spot exchange rate as of the statement of financial position date, taking into account the remaining term to maturity of the derivative assets.

AFS Investments

Debt securities

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

Quoted equity securities

Fair values are based on quoted prices published in GG&A Club Shares. GG&A Club Shares is involved in trading and leasing proprietary and non-proprietary club shares.

Unquoted equity securities

Fair values could not be reliably determined due to an unpredictable nature of future cash flows and the lack of suitable methods of carrying at a reliable fair value. These are carried at cost less any allowance for impairment losses. Unquoted equity securities are not significant in relation to the Bank's portfolio of financial instruments.

Loans and Receivables

Cash and other cash items, amounts due from BSP and other banks and interbank loans receivable and SPURA

The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits.

Receivables from customers

Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of loans and receivables.

Unquoted debt securities classified as loans

For unquoted debt securities with nil coupon interest rates, fair values are estimated based on the discounted cash flow methodology using the interpolated risk-free rate.

For unquoted debt securities with floating interest rates, fair values are estimated using discounted cash flow methodology using the prevailing rate of return.

Accrued interest receivable and payable and Returned checks and other cash items (RCOCI)

Carrying amounts approximate fair values due to either the demand nature or relatively short-term maturities.

Accounts receivable, sales contracts receivable and refundable security deposits

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 Bank's total portfolio of financial instruments.

Financial Liabilities at Amortized Cost

Deposit liabilities

Fair values of time deposits are estimated based on the discounted cash flow methodology using the current incremental borrowing rates for similar types of borrowings. The carrying amount of demand and savings deposit liabilities approximate fair value considering that these are due and demandable.

Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market data and conditions, and reflect appropriate adjustments that market participants would make for credit and liquidity risks existing at the statement of financial position dates.

Bills payable
Fair value is estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. Where the instrument has a relatively short maturity, the carrying amounts approximate fair values.

Outstanding acceptances, manager's checks, accrued other expenses, accounts payable and marginal deposits
Carrying amounts approximate fair values due to either the demand nature or relatively short-term maturities.

Due to Treasurer of the Philippines
Quoted market prices are not readily available for such liabilities. They are not reported at fair value and are not significant in relation to the Bank's total portfolio of financial instruments.

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

- Quoted 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, government securities measured at fair value based on Level 1 inputs amounted to ₱16.74 billion and ₱16.11 billion, respectively.

As of December 31, 2012 and 2011, the Bank held the following financial instruments measured at fair value based on Level 2 inputs (amounts in thousands):

	2012	2011
AFS investments:		
Quoted equity securities	**₱23,130**	₱23,130
Derivative assets (Note 13)	**2,147**	649
	₱25,277	₱23,779

As of December 31, 2012 and 2011, the Bank has no financial instruments carried at fair value which are measured based on Level 3. There were no transfers between levels in 2012 and 2011.

5. Financial Risk Management Objectives and Policies

Introduction
Risk is inherent in the Bank's activities but is managed through a continuing and pro-active process of identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank is exposed to the following risks from its financial instruments:

a. Credit risk
b. Liquidity risk
c. Market risk
   i. Interest rate risk
   ii. Foreign currency risk
   iii. Equity price risk

Risk management structure
The Bank's risk management environment is characterized by a well-defined risk organizational structure, flow of risk information, risk-based audit coverage, and an established compliance system.

BOD
The BOD is responsible for establishing and maintaining a sound risk management system and is ultimately accountable for identifying and controlling risks; there are, however, separate independent bodies responsible for managing and monitoring risks.

Risk Management Committee (RMC)
The RMC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

Risk Management Group (RMG)
The RMG is an independent unit within the Bank that directly reports to the RMC. It is the responsibility of the RMG to identify, analyze and measure risks from the Bank's trading, lending, borrowing and other transactional activities. It also recommends control policies and procedures to mitigate risk in identified risk areas in Treasury, Credit, Trust and other areas of operations.

Risk Control
The Risk Control function performs the important day-to-day monitoring of risk exposures against approved limits and reporting of such exposures, and implementation of policies and control procedures.

Treasury Segment
The Treasury Segment is responsible for managing the Bank's assets and liabilities. It is also primarily responsible for the management of the funding and liquidity risks of the Bank.

Internal Audit Group (IAG)
Risk management processes throughout the Bank are audited by the IAG which examines both the adequacy of the procedures and the Bank's compliance thereto. IAG discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems
The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect both the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information gathered from all the businesses is evaluated and processed in order to analyze, control and identify risks early. All significant information is presented to the BOD, the RMC, and the head of each business division. The report includes credit exposure to groups and industries, Value-at-Risk (VaR), liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis for prudential reporting and an annual basis for financial reporting.

Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank's credit risk arises from its lending and trading of securities and foreign exchange activities. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual borrowers and groups of borrowers as well as limits on large lines and industry concentrations. The Bank's RMG monitors exposures in relation to these limits.

Through the Bank's Credit Policy and Review Group (CPRG), the Bank is able to continually manage credit related risks in its risk asset portfolio through objective assessments/evaluations of credit proposals prior to presentation to the Credit Committee, ensuring the highest standards of credit due diligence and independence.

The Bank obtains security where appropriate, enters into collateral arrangements with counterparties, and limits the duration of exposures. The Bank's credit risk management process is guided by policies and procedures established by the CPRG and approved by the BOD.

The Bank has an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner that is as accurate as possible and uses the risk information for business and financial decision making. The system covers companies with asset size of more than ₱15.00 million and with financial statements audited by SEC accredited auditors starting reporting year 2005. The Bank adopted the Bankers Association of the Philippines model which has been approved by the BSP under BSP Circular No. 439 as a minimum standard for an internal risk rating system. The system has two components, namely: a) Borrower Risk Rating System which provides an assessment of credit risk without considering the security arrangements and b) Facility Risk Factor which is an account rating taking into account the collateral and other credit risk mitigants. The rating scale consists of 10 grades, 6 of which fall under unclassified accounts and 4 classified according to regulatory provisioning guidelines.

The Bank has in place a loan portfolio quality and credit process review that allows the Bank to continuously identify and assess the risks on credit exposures and take corrective actions. This function is carried out by the Bank's Credit Review Unit under the CPRG.

Maximum exposure to credit risk
The table below provides the analysis of the maximum exposure of the Bank's financial instruments to credit risk, excluding those where the carrying values as reflected in the statements of financial position and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements (amounts in thousands):

	2012		
	Gross Maximum Exposure	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral**
Credit risk exposure relating to on-balance sheet items are as follows:			
Interbank loans receivable and SPURA	**₱993,804**	**₱494,229**	**₱499,575**
Loans and receivables:			
Receivables from customers:			
Corporate loans	**11,645,345**	**10,615,267**	**1,030,078**
Consumer loans	**100,915**	**50,887**	**50,028**
Total Credit Exposure	**₱12,740,064**	**₱11,160,383**	**₱1,579,681**

	2011		
	Gross Maximum Exposure	Maximum Exposure to Credit Risk	Financial Effect of Collateral
Credit risk exposure relating to on-balance sheet items are as follows:			
Interbank loans receivable and SPURA	₱2,830,082	₱530,082	₱2,300,000
Loans and receivables:			
Receivables from customers:			
Corporate loans	6,454,263	4,702,445	1,751,818
Consumer loans	88,491	46,469	42,022
Total Credit Exposure	₱9,372,836	₱5,278,996	₱4,093,840

For sales contract receivables, the fair value of collaterals and their corresponding financial effect on credit exposure are no longer disclosed since the system does not regularly monitor such information. The carrying value of those sales contract receivables are disclosed in Note 9.

Risk concentrations by industry
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry.

Group exposures and risk concentrations to industries are monitored and reported in accordance with the Bank's policies on Group lending/inter-corporate earmarking and managing large exposure and credit risk concentrations.

Credit-related commitment risks
The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to

the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

The industry sector analysis of the Bank's maximum exposure to credit risk concentration follows (amounts in thousands):

	December 31, 2012				
	Loans and receivables	**Loans and advances to banks***	**AFS investments**	**Others****	**Total**
Government	**₱3,345,842**	**₱6,011,067**	**₱16,744,365**	**₱–**	**₱26,101,274**
Wholesale and retail trade	**4,970,270**	**–**	**–**	**441,367**	**5,411,637**
Manufacturing	**3,898,038**	**–**	**–**	**189,818**	**4,087,856**
Construction and real estate	**3,064,628**	**–**	**–**	**10,758**	**3,075,386**
Banks and financial institutions	**707,702**	**1,380,947**	**18,330**	**705,541**	**2,812,520**
Transportation, storage, communication	**1,199,822**	**–**	**–**	**53,365**	**1,253,187**
Others	**1,408,190**	**–**	**23,130**	**132,465**	**1,563,785**
	18,594,492	**7,392,014**	**16,785,825**	**1,533,314**	**44,305,645**
Less allowance for credit and impairment losses	**2,636,997**	**–**	**7,022**	**–**	**2,644,019**
	₱15,957,495	**₱7,392,014**	**₱16,778,803**	**₱1,533,314**	**₱41,661,626**

* Consist of due from BSP, due from other banks, and interbank loans receivable and SPURA
** Consist of RCOCI, refundable deposits and commitments and contingencies

	December 31, 2011				
	Loans and receivables	Loans and advances to banks*	AFS investments	Others**	Total
Government	₱1,989,375	₱8,340,783	₱16,108,354	₱–	₱26,438,512
Manufacturing	3,303,389	–	–	165,006	3,468,395
Wholesale and retail trade	3,029,528	–	–	304,285	3,333,813
Transportation, storage, communication	2,422,222	–	–	–	2,422,222
Banks and financial institutions	235,400	1,044,894	18,341	311,952	1,610,587
Construction and real estate	890,768	–	–	72,257	963,025
Others	1,339,713	–	23,130	121,575	1,484,418
	13,210,395	9,385,677	16,149,825	975,075	39,720,972
Less allowance for credit and impairment losses	2,688,857	–	6,081	–	2,694,938
	₱10,521,538	₱9,385,677	₱16,143,744	₱975,075	₱37,026,034

* Consist of due from BSP, due from other banks, and interbank loans receivable and SPURA
** Consist of RCOCI, refundable deposits and commitments and contingencies

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions; cash or securities
- For commercial lending; mortgages over real estate properties, machineries, inventory and trade receivables
- For retail lending; mortgages over residential properties

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Collaterals obtained by the Bank from settlement of loan and receivables in 2012 and 2011 and which remain outstanding as of December 31, 2012 and 2011 amounted to nil and ₱4.81 million, respectively.

The Bank does not hold collateral on financial assets which it may sell or repledge in absence of default by the owner of the collateral.

Credit quality per class of financial assets

Loans and Receivables
Description of the loan grades or Internal Credit Risk Rating (ICRR) used by the Bank for corporate commercial loans follows:

High Grade (ICRR 1 to 5)
Under this category, the borrower has the apparent ability to satisfy its obligations in full and therefore, no loss in ultimate collection is anticipated. These loans or portions thereof are secured by hold-outs on deposits/deposit substitute, margin deposits or government-supported securities, other readily marketable collateral or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

Standard Grade (ICRR 6 to 7)
Under this category are accounts not considered adversely classified but require close supervision/monitoring due to some warning signals such as start-up business, substantial changes in the business affecting operation or management, three continuous years of substantial decline in income (exclusive of extraordinary income/losses).

Substandard Grade (ICRR 8 to 10)
Under this category are loans which exhibit unfavorable record or unsatisfactory characteristics, or where existing facts, conditions and values, make collection or liquidation in full improbable. Positive and vigorous management action is required to avert or minimize loss.

Due from Other Banks, Interbank Receivables and Government Securities
The Bank follows an internally developed risk rating system for local banks and external risk ratings [i.e. Standard and Poor's (S&P)] for foreign banks and government securities. A description of the rating systems for local banks follows:

High Grade (Tier 1)
Tier 1 - Banks categorized under this tier are capable of withstanding very difficult market conditions for 2-3 years without deteriorating to a substandard credit classification by virtue of their size, reputation and ranking in the industry.

Standard Grade (Tier 2 to Tier 3)
These are accounts that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the financial instrument thus increase credit risk to the Bank.

Tier 2 - Banks categorized under this tier may deteriorate to substandard within 1-2 years under very difficult market conditions.

Tier 3 - Banks categorized under this tier may deteriorate to substandard within one year under very difficult market conditions. These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱3.00 billion to less than ₱4.50 billion and net income of ₱200.00 million to less than ₱400.00 million are included in this category.

Substandard Grade (Tier 4)
Tier 4 - These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱1.50 billion to less than ₱3.00 billion and net income of ₱70.00 million to less than ₱200.00 million are included in this category.

Foreign Banks and Other Government Securities
The following is the credit rating scale applicable for foreign banks, government securities, and corporate investment outlets (aligned with S&P ratings):

AAA - Obligor's capacity to meet its financial commitment is extremely strong.

AA - Obligor's capacity to meet its financial commitment is very strong. It differs from the highest-rated obligors at a minimal degree.

A - Obligor has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors rated in higher-rated categories.

BBB and below:

BBB - Obligation rated ‘BBB’ has adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB - Obligation is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B - Obligation rated ‘B’ is more vulnerable to nonpayment than obligations rated ‘BB’, but the obligor currently has the capacity to meet its financial commitment on the obligation.

Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC - Obligation is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

CC - Obligation is currently highly vulnerable to nonpayment.

C - Obligations are currently highly vulnerable to nonpayment, payment arrearages allowed by the terms of the documents, and subject of a bankruptcy petition or similar action which have not experienced a payment default.

Among others, the 'C' rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument's terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

D - Obligation is in payment default. Payments on an obligation are not made on the date due even if the applicable grace period has not expired. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation's rating is lowered to 'D' upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

The table below shows the credit quality by class of financial assets (at gross amount but net of unearned discounts) based on the Bank's credit rating system (amounts in thousands).

	December 31, 2012						
	Neither Past Due nor Impaired						
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated***	**Past Due But Not Impaired**	**Past Due or Impaired**	**Total**
Due from BSP	**₱–**	**₱–**	**₱–**	**₱5,511,067**	**₱–**	**₱–**	**₱5,511,067**
SPURA	**–**	**–**	**–**	**500,000**	**–**	**–**	**500,000**
Due from other banks	**68,982**	**39,745**	**5,894**	**–**	**–**	**–**	**114,621**
	68,982	**39,745**	**5,894**	**6,011,067**	**–**	**–**	**6,125,688**
AFS investments:							
Equity securities							
Quoted	**–**	**–**	**–**	**23,130**	**–**	**–**	**23,130**
Unquoted	**–**	**–**	**–**	**11,307**	**–**	**7,023**	**18,330**
	–	**–**	**–**	**34,437**	**–**	**7,023**	**41,460**
Loans and receivables:							
Receivables from customers:							
Corporate	**8,600,290**	**2,897,140**	**61,379**	**429,304**	**166,540**	**915,294**	**13,069,947**
Consumer	**45,258**	**52,553**	**65**	**–**	**9,930**	**237,020**	**344,826**
Unquoted debt securities	**122,250**	**–**	**–**	**3,253,971**	**–**	**–**	**3,376,221**
Accounts receivable	**11,433**	**18,846**	**2,184**	**425,675**	**–**	**388,457**	**846,595**
Accrued interest receivable	**31,711**			**310,403**	**–**	**489,030**	**831,144**
Sales contracts receivable	**104,086**				**21,672**		**125,758**
RCOCI	**5,691**	**–**	**–**	**–**	**–**	**–**	**5,691**
Refundable security deposits	**–**	**–**	**–**	**18,084**	**–**	**–**	**18,084**
	8,920,719	**2,968,539**	**63,628**	**4,437,437**	**198,142**	**2,029,801**	**18,618,266**
Total	**₱8,989,701**	**₱3,008,284**	**₱69,522**	**₱10,482,941**	**₱198,142**	**₱2,036,824**	**₱24,785,414**

*Financial instruments that are not rated (includes due from BSP, SPURA and equity securities)

	AA	**A**	**BBB and below**	**Total**
Due from other banks	**₱1,945**	**₱766,167**	**₱4,410**	**₱772,522**
Interbank loans receivable	**41,249**	**452,555**	**–**	**493,804**
Derivative asset	**–**	**2,147**	**–**	**2,147**
AFS investments				
Government securities	**–**	**–**	**16,744,365**	**16,744,365**
	₱43,194	**₱1,220,869**	**₱16,748,775**	**₱18,012,838**

	December 31, 2011						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated*	Past Due But Not Impaired	Past Due or Impaired	Total
Due from BSP	₱–	₱–	₱–	₱6,040,783	₱–	₱–	₱6,040,783
SPURA	–	–	–	2,300,000	–	–	2,300,000
Due from other banks	64,262	52,789	3,672	1,379	–	–	122,102
	64,262	52,789	3,672	8,342,162	–	–	8,462,885
AFS investments:							
Equity securities							
Quoted	–	–	–	23,130	–	–	23,130
Unquoted	–	–	–	11,307	–	7,034	18,341
	–	–	–	34,437	–	7,034	41,471

(Forward)

	December 31, 2011						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated*	Past Due But Not Impaired	Past Due or Impaired	Total
Loans and receivables:							
Receivables from customers:							
Corporate	₱4,709,541	₱1,737,523	₱207,274	₱–	₱72,300	₱1,272,349	₱7,998,987
Consumer	69,617	19,518	89	–	6,623	236,555	332,402
Unquoted debt securities	163,000	–	–	2,891,521	–	–	3,054,521
Accounts receivable	13,777	29,251	34,822	425,908	–	353,613	857,371
Accrued interest receivable	13,777	–	–	310,515	–	499,556	823,848
Sales contracts receivable	122,144	–	–	–	21,122	–	143,266
RCOCI	5,072	–	–	–	–	–	5,072
Refundable security deposits	–	–	–	15,324	–	–	15,324
	5,096,928	1,786,292	242,185	3,643,268	100,045	2,362,073	13,230,791
Total	₱5,161,190	₱1,839,081	₱245,857	₱12,019,867	₱100,045	₱2,369,107	₱21,735,147

*Financial instruments that are not rated (includes due from BSP, SPURA and equity securities)

	AA	A	BBB and below	Total
Due from other banks	₱302,477	₱90,233	₱–	₱392,710
Interbank loans receivable	321,784	208,298	–	530,082
Derivative asset	–	649	–	649
AFS investments				
Government securities	–	–	16,108,354	16,108,354
	₱624,261	₱299,180	₱16,108,354	₱17,031,795

As of December 31, 2012 and 2011, restructured loans by the Bank which are neither past due nor impaired are as follows:

	2012	2011
Receivable from customers:		
Corporate	**₱219,004,635**	₱331,665,941
Consumer	–	1,236,421

Impaired loans and receivables and investment securities
Impaired loans and receivables and investment securities are those for which the Bank determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory note and securities agreements.

Aging analysis of past due but not impaired loans per class of financial assets
Aging analysis of past due but not impaired financial assets are shown below (amounts in thousands):

	December 31, 2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Greater than 1 year	Total
Receivable from customer:						
Corporate loans	**₱137,700**	**₱–**	**₱–**	**₱–**	**₱28,840**	**₱166,540**
Consumer loans	**227**	**140**	**56**	**61**	**9,446**	**9,930**
Sales contract receivable	**5,194**	**4,373**	**1,050**	**217**	**10,838**	**21,672**
	₱143,121	**₱4,513**	**₱1,106**	**₱278**	**₱49,124**	**₱198,142**

	December 31, 2011					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Greater than 1 year	Total
Receivable from customer:						
Corporate loans	₱–	₱–	₱–	₱–	₱72,300	₱72,300
Consumer loans	11	240	316	354	5,702	6,623
Sales contract receivable	9,721	–	–	563	10,838	21,122
	₱9,732	₱240	₱316	₱917	₱88,840	₱100,045

Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. 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. In addition, the Bank makes use of a monthly system generated Liquidity Gap Report in analyzing its liquidity position where the difference between the Bank's maturing assets and liabilities is captured. A Maximum Cumulative Outflow limit is likewise established to control the liquidity gap for each currency. The Asset and Liability Committee meets weekly to discuss among others the liquidity state of the Bank.

The Bank 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 Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the BSP equal to 18.00% 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 Bank.

The most important of these is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash and cash equivalents, due from other banks, due from BSP, interbank call loans receivables and AFS investments.

Analysis of financial instruments by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial instruments as of December 31, 2012 and 2011 based on undiscounted contractual payments. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history (amounts in millions):

	December 31, 2012					
	On demand	Less than 3 months	3-12 months	1-2 years	Beyond 2 years*	Total
Financial Assets						
AFS investments:						
Government securities	**₱–**	**₱314**	**₱815**	**₱8,749**	**₱15,564**	**₱25,442**
Loans and receivables:						
Due from BSP	**5,511**	–	–	–	–	**5,511**
Due from other banks	**887**	–	–	–	–	**887**
Interbank loans receivable and SPURA	**329**	**665**				**994**
Receivables from customers:						
Corporate	–	**7,038**	**3,438**	**140**	**3,254**	**13,870**
Consumer	–	**36**	**3**	**7**	**218**	**264**
Other assets:						
Derivatives						
Gross contractual receivable	–	**698**	–	–	–	**698**
Gross contractual payable	–	**(698)**	–	–	–	**(698)**
Total financial assets	**6,727**	**8,053**	**4,256**	**8,896**	**19,036**	**46,968**

(Forward)

	December 31, 2012					
	On demand	**Less than 3 months**	**3-12 months**	**1-2 years**	**Beyond 2 years***	**Total**
Financial Liabilities						
Deposit liabilities						
Demand	**₱5,788**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,788**
Savings	**2,751**	–	–	–	–	**2,751**
Time	**772**	**16,265**	**5,255**	**588**	**80**	**22,960**
Bills payable						
PDIC	–	**19**	**57**	**7,659**	–	**7,735**
Banks and other financial institutions	–	–	–	–	–	–
Private firms and individuals	–	**1,190**	–	–	–	**1,190**
Outstanding acceptances	**32**	–	–	–	–	**32**
Manager's checks	**67**	–	–	–	–	**67**
Accrued interest payable	**37**	**16**	**27**	–	–	**80**
Accrued other expense	**109**	–	–	–	–	**109**
Other liabilities:						
Accounts payable	**64**	–	–	–	–	**64**
Refundable security deposits	**1**	**8**	**28**	**59**	–	**96**
Due to the Treasurer of the Philippines	–	**11**	–	–	–	**11**
Total financial liabilities	**₱9,621**	**₱17,509**	**₱5,367**	**₱8,306**	**₱80**	**₱40,883**

*Including nonperforming loans and receivables

	December 31, 2011					
	On demand	Less than 3 months	3-12 months	1-2 years	Beyond 2 years*	Total
Financial Assets						
AFS investments:						
Government securities	₱–	₱248	₱888	₱9,986	₱10,471	₱21,593
Loans and receivables:						
Due from BSP	3,541	2,500	–	–	–	6,041
Due from other banks	515	–	–	–	–	515
Interbank loans receivable and SPURA	223	2,564	44	–	–	2,831
Receivables from customers:						
Corporate	–	4,741	1,732	272	1,525	8,270
Consumer	118	35	37	138	12	340
Other assets:						
Derivatives						
Gross contractual receivable	–	307	–	–	–	307
Gross contractual payable	–	(308)	–	–	–	(308)
Total financial assets	4,397	10,087	2,701	10,396	12,008	39,589
Financial Liabilities						
Deposit liabilities						
Demand	4,884	–	–	–	–	4,884
Savings	2,424	–	–	–	–	2,424
Time	607	17,084	2,274	469	76	20,510
Bills payable					–	
PDIC	–	19	57	7,737	–	7,813
Banks and other financial institutions	–	117	29	–	–	146
Private firms and individuals	–	1,285	–	–	-	1,285
Outstanding acceptances	57	–	–	–	–	57
Manager's checks	34	–	–	–	–	34
Accrued interest payable	39	21	20	-	-	80
Accrued other expense	111	–	–	–	–	111
Other liabilities:						
Accounts payable	62	–	–	–	–	62
Refundable security deposits	13	10	33	53		109
Due to the Treasurer of the Philippines	–	17	–	–	–	17
Total financial liabilities	₱8,231	₱18,553	₱2,413	₱8,259	₱76	₱37,532

*Including nonperforming loans and receivables

The table below shows the contractual expiry by maturity of the Bank's commitments and contingent liabilities as of December 31, 2012 and 2011 (amounts in millions):

	December 31, 2012				
	On demand	**Less than 3 months**	**3 to 12 months**	**Beyond 1 year**	**Total**
Unused Commercial LC:					
Standby LC	**₱1**	**₱64**	**₱360**	**₱54**	**₱479**
Sight LC outstanding	**14**	**129**	**74**	**–**	**217**
Usance LC outstanding	**12**	**87**	**1**	**–**	**100**
Outstanding shipping guarantees	**–**	**–**	**16**	**–**	**16**
	₱27	**₱280**	**₱451**	**₱54**	**₱812**

	December 31, 2011				
	On demand	Less than 3 months	3 to 12 months	Beyond 1 year	Total
Unused Commercial LC:					
Standby LC	₱267	₱16	₱185	₱–	₱468
Sight LC outstanding	19	86	20	–	125
Usance LC outstanding	6	38	–	–	44
Outstanding shipping guarantees	–	–	10	–	10
	₱292	₱140	₱215	₱–	₱647

Market Risk Management

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes. The Bank's market risk originates from its holdings of foreign exchange instruments, debt securities and derivatives.

VaR

The VaR method is a procedure for estimating the probability of portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities.

VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified time horizon.

VaR is used to alert senior management whenever the potential for losses in the Bank's portfolios exceeds the VaR limit. This allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with the Bank's risk philosophy and appetite.

In 2002, the Bank commenced using Bloomberg's Parametric VaR (PVaR) module in its VaR computation. Bloomberg's PVaR is run on a Parametric VaR model whose data set contains 1 year of historical prices and a daily update of its variance/covariance matrix. In accordance with BSP standards, the Bank uses a 99.00% confidence level and a 10-day defeasance period.

This means, that statistically, the Bank's losses on trading operations will exceed VaR on at least 1 out of 100 trading business days.

The Treasury Risk Control Officer runs VaR on a daily basis, monitors the VaR against the Board approved VaR limit and submits Daily VaR Reports to concerned division/group/segment heads.

To verify the validity of the VaR model used, the Treasury Risk Manager through its quarterly back testing procedure examines how frequently actual daily losses exceeds the daily VaR. Backtesting results are reviewed by the Chief Risk Officer. Exceptions, if any, are reported to the RMC and the BOD. There was no recorded breach in the VaR limit in 2012 and 2011.

Since VaR is designed to describe risk in normal market conditions (i.e. 99.00% of the time), “outliers” or events that occur in the tail of normal curve and those extreme movements in the past are no longer captured in the historical data window. Stress testing is done to address extreme market conditions.

	Interest Rate	
	USD ROP (In USD MM)	**Peso GS (In Peso MM)**
2012-31 December	**1.226**	**189.688**
2012-Average Daily	**1.728**	**214.282**
2012-Highest	**3.695**	**352.902**
2012-Lowest	**0.237**	**147.743**

	Interest Rate	
	USD ROP (In USD MM)	Peso GS (In Peso MM)
2011-31 December	1.462	128.547
2011-Average Daily	2.367	92.427
2011-Highest	4.926	156.423
2011-Lowest	1.334	63.187

Stress testing

The Bank likewise performs stress testing on its FX trading position and on its outstanding investment portfolios. Stress testing is a technique used to determine the impact on earnings of above position/portfolios from conditions or scenarios deemed “extreme” but plausible. Stress testing is used to inform senior management as to where vulnerabilities in the Bank’s portfolio actually lie.

It helps them evaluate the Bank’s tolerance for risks and understand the combinations of risks that can produce large losses.

Unlike VaR, which reflects price behavior in everyday markets, stress tests simulate portfolio performance during abnormal market periods. Accordingly, they provide information about risks falling outside those typically captured by the VaR framework. Hence, losses resulting from stress tests are larger than the losses predicted by the VaR model.

The Bank’s Treasury Risk Manager performs the stress testing of traded securities using the scenario and sensitivity tests, anchored on historical and hypothetical events. The stress testing is conducted quarterly and its results are reported to the RMC and BOD.

Interest Rate Risk Management

Interest rate risk arises from the possibility that changes in the interest rates will affect future cash flows or the fair value of financial instruments. The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that the exposure to fluctuations in interest rates is kept within acceptable limits.

A substantial proportion of the total loan portfolio is for a term of less than one year, and the majority of the balance of its medium-term portfolio is on a floating-rate basis. As of December 31, 2012 and 2011, 85.68% and 85.13%, respectively, of the Bank's total loan portfolio comprised of floating rate loans which are repriced periodically by reference to the transfer pool rate which reflects the Bank's internal cost of funds. As a result of these factors, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

The Bank, in keeping with banking industry practice, aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transactional banking requirements of customers. No interest is paid on demand accounts, which as of December 31, 2012 and 2011 accounted for 18.46% and 17.56% respectively, of total deposits, except for a demand account product which pays a rate of interest equal to that payable on regular savings accounts of the Bank. Rates on savings accounts and time deposit accounts, which constituted 8.77% and 72.77%, respectively, of total deposits as of December 31, 2012 and 8.71% and 73.73%, respectively, of total deposits as of December 31, 2011 are set by different criteria. Savings account rates are set by reference to prevailing market rates, while rates on time deposits and special savings accounts are usually priced by reference to rates applicable to prevailing rates on Philippine Treasury Bills and other money market instruments or, in the case of foreign currency deposits, Singapore Interbank Offer Rate and other benchmark dollar deposit rates in the Asian and international money markets with similar maturities.

The following table provides for the average EIR by period of maturity or repricing of the Bank as of December 31, 2012 and 2011:

	2012			2011		
	Less than 3 months	**3 months to 1 year**	**Greater than 1 year**	Less than 3 months	3 months to 1 year	Greater than 1 year
Peso-Denominated						
Assets						
Due from banks	**0.44%**	**–**	**–**	0.47%	–	–
Interbank loans	**3.50%**	**–**	**–**	4.50%	–	–
Loans and receivables	**7.97%**	**8.10%**	**10.97%**	12.60%	8.65%	9.46%
Liabilities						
Deposit liabilities	**2.83%**	**2.63%**	**4.04%**	3.31%	3.11%	–
Bills payable	**3.25%**	**–**	**–**	4.49%	–	–
Foreign Currency-Denominated						
Assets						
Due from banks	**0.27%**	**–**	**–**	0.18%	–	–
Interbank loans	**0.26%**	**–**	**–**	0.08%	0.60%	–
Loans and receivables	**5.79%**	**5.98%**	**6.50%**	6.62%	7.09%	6.50%
Liabilities						
Deposit liabilities	**1.62%**	**1.81%**	**1.56%**	2.04%	2.07%	–
Bills payable	**–**	**–**	**–**	0.01%	0.01%	–

The method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of interest rate analysis. This analysis provides the Bank with a measure of the impact of changes in interest rates on the actual portfolio i.e., the risk exposure of future accounting income. The repricing gap is calculated by distributing the financial assets and financial liabilities into tenor buckets according to the time remaining to maturity or next repricing date and then obtaining the difference between the total of the repricing (interest sensitive) assets and repricing (interest sensitive) liabilities.

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. Accordingly, during a period of rising interest rates, a bank with a positive gap would be better positioned than one with a negative gap to invest in or hold higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its 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.

The following tables set forth the asset-liability gap position of the Bank as of December 31, 2012 and 2011 (amounts in millions):

	December 31, 2012					
	Up to 1 month	**More than 1 month to 3 months**	**More than 3 to 12 months**	**More than 1 year but less than two years**	**Beyond two years**	**Total**
Assets						
Due from BSP	**₱5,511**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,511**
Due from other banks	**887**	**–**	**–**	**–**	**–**	**887**
Interbank loan receivables and SPURA	**994**	**–**	**–**	**–**	**–**	**994**
AFS investments	**20**	**–**	**71**	**8,038**	**8,615**	**16,744**
Loans and receivables	**2,562**	**4,464**	**3,334**	**125**	**2,943**	**13,428**
Total assets	**9,974**	**4,464**	**3,405**	**8,163**	**11,558**	**37,564**
Liabilities						
Deposit liabilities	**13,779**	**7,150**	**3,310**	**573**	**6,544**	**31,356**
Bills payable	**–**	**1,187**	**–**	**6,637**	**–**	**7,824**
Total liabilities	**13,779**	**8,337**	**3,310**	**7,210**	**6,544**	**39,180**
Asset-liability gap	**(₱3,805)**	**(₱3,873)**	**₱95**	**₱953**	**₱5,014**	**(₱1,616)**

	December 31, 2011					
	Up to 1 month	More than 1 month to 3 months	More than 3 to 12 months	More than 1 year but less than two years	Beyond two years	Total
Assets						
Due from BSP	₱6,041	₱–	₱–	₱–	₱–	₱6,041
Due from other banks	515	–	–	–	–	515
Interbank loan receivables and SPURA	2,830	–	–	–	–	2,830
AFS investments	–	25	120	7,700	8,263	16,108
Loans and receivables	1,596	2,909	1,948	1,515	373	8,341
Total assets	10,982	2,934	2,068	9,215	8,636	33,835
Liabilities						
Deposit liabilities	12,534	5,866	8,873	469	76	27,818
Bills payable	–	1,281	–	–	6,074	7,355
Total liabilities	12,534	7,147	8,873	469	6,150	35,173
Asset-liability gap	(₱1,552)	(₱4,213)	(₱6,805)	₱8,746	₱2,486	(₱1,338)

The Bank also monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income. This is done by modeling the impact of various changes in interest rates to the Bank's interest-related income and expenses.

The following table demonstrates the sensitivity of the cumulative net position of risk-sensitive assets and risk-sensitive liabilities to a reasonable change in interest rates, with all other variables held constant, on the Bank's statements of income.

	2012			
(Amounts in millions)	**Changes in interest rates (in basis points)**			
Changes in interest rates (in basis points)	**+50**	**-50**	**+100**	**-100**
Change in annualized net interest income	**(₱8.08)**	**₱8.08**	**(₱16.16)**	**₱16.16**

(Amounts in millions)	2011 Changes in interest rates (in basis points)			
Changes in interest rates (in basis points)	+50	-50	+100	-100
Change in annualized net interest income	(₱6.69)	₱6.69	(₱13.37)	₱13.37

As of December 31, 2012 and 2011, interest rate risk has no other impact on the Bank's OCI other than those already affecting profit and loss.

Foreign Currency Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currency liabilities generally consist of foreign currency-deposits in the Bank's FCDU account 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 Bank and foreign currency-denominated borrowings appearing in the regular books of the Bank.

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

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

The table summarizes the Bank's exposure to foreign exchange risk as of December 31, 2012 and 2011. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency (amounts in thousands and in Philippine peso equivalent).

	2012			2011		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
Loans and receivables:						
Due from other banks	**₱73,832**	**₱29,631**	**₱103,463**	₱47,784	₱23,529	₱71,313
Corporate loans	**288,144**	**–**	**288,144**	180,461	396	180,857
Accrued interest receivable	**564**	**–**	**564**	530	–	530
Accounts receivable	**–**	**–**	**–**	190	–	190
Other assets	**63**	**117**	**180**	123	67	190
Total assets	**362,603**	**29,748**	**392,351**	229,088	23,992	253,080
Liabilities						
Deposit liabilities:						
Savings	**–**	**3,502**	**3,502**	–	5,459	5,459
Time	**–**	**4,977**	**4,977**	–	5,317	5,317
Outstanding acceptances	**32,322**	**–**	**32,322**	56,611	396	57,007
Other liabilities:						
Accounts payable	**–**	**–**	**–**	3	–	3
Others	**31**	**–**	**31**	33	1	34
Total liabilities	**32,353**	**8,479**	**40,832**	56,647	11,173	67,820
Net exposure	**₱330,250**	**₱21,269**	**₱351,519**	₱172,441	₱12,819	₱185,260

The table below indicates the exposure of the Bank in USD on its non-trading monetary assets and liabilities. The analysis calculates the effect of a reasonable possible movement of the base currency rate against the USD, with all other variables held constant on the statement of income and statement of comprehensive income. A negative amount in the table reflects a potential net reduction in income or comprehensive income, while a positive amount reflects a potential net increase. The Bank's exposure in currencies other than USD is minimal.

	2012			
(Amounts in thousands)	**Changes in foreign exchange rates**			
Changes in foreign exchange rates	**+3.00%**	**-3.00%**	**+4.00%**	**-4.00%**
Change in annualized net income	**₱9,908**	**(₱9,908)**	**₱13,210**	**(₱13,210)**

	2011			
(Amounts in thousands)	Changes in foreign exchange rates			
Changes in foreign exchange rates	+3.00%	-3.00%	+4.00%	-4.00%
Change in annualized net income	₱5,172	(₱5,172)	₱6,895	(₱6,895)

As of December 31, 2012 and 2011, there is no impact on the Bank's OCI other than those already affecting profit and loss.

Equity Price Risk Management

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Bank holds a minimal amount of equity securities, hence any changes to equity prices is deemed to not significantly affect its financial performance.

6. Segment Information

The Bank's operating businesses are organized and managed separately according to the nature of services provided and the different markets served with segment representing a strategic business unit. The Bank's business segments are as follows:

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 accounts for corporate and institutional customers;

Treasury - principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross interest income and expense. Included under Treasury is the income support earned by the Bank from the FAA.

No revenue from transactions with a single external customer or counterparty amounted to 10.00% or more of the Bank's total revenue in 2012, 2011, and 2010.

For management purposes, business segment information provided to the Chief Operating Decision Maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS. The CODM is the Bank's BOD.

The following table presents income and profit and certain asset and liability information regarding the Bank's operating segments as of and for the years ended December 31, 2012 and 2011 (amounts in thousands):

	2012						
	Consumer Banking	Corporate Banking	Treasury	Unallocated	RAP	RAP-PFRS Adjustments	PFRS
Segment Revenue							
Total revenue	**₱365,013**	**₱277,697**	**₱1,630,733**	**₱112,900**	**₱2,386,343**	**₱39,344**	**₱2,425,687**
Other operating income	**15,994**	**10,234**	**12,653**	**469,678**	**508,559**	**(43,456)**	**465,103**
Total operating income	**381,007**	**287,931**	**1,643,386**	**582,578**	**2,894,902**	**(4,112)**	**2,890,790**
Compensation and fringe benefits	**276,399**	**46,189**	**17,644**	**397,235**	**737,467**	**–**	**737,467**
Provision for (reversal of) credit and impairment losses – net	**–**	**–**	**941**	**17,822**	**18,763**	**(20,028)**	**(1,265)**
Taxes and licenses	**82,921**	**35,213**	**143,250**	**70,592**	**331,976**	**(8,343)**	**323,633**
Depreciation and amortization	**42,671**	**3,155**	**1,241**	**85,983**	**133,050**	**(55,158)**	**77,892**
Occupancy and equipment-related costs	**93,596**	**2,648**	**1,475**	**–**	**97,719**	**(685)**	**97,034**
Other operating expenses	**108,808**	**10,314**	**40,082**	**247,818**	**407,022**	**(9,235)**	**397,787**
Net operating income (loss)	**(₱223,388)**	**₱190,412**	**₱1,438,753**	**(₱236,872)**	**₱1,168,905**	**₱89,337**	**₱1,258,242**
Segment Results							
Net interest income	**₱324,068**	**₱175,996**	**₱883,096**	**₱101,995**	**₱1,485,155**	**₱32,862**	**₱1,518,017**
Service charges, fees, and commissions	**40,945**	**101,701**	**38**	**10,905**	**153,589**	**–**	**153,589**
Trading and securities gain – net	**–**	**–**	**747,599**	**–**	**747,599**	**6,482**	**754,081**
Total revenue	**365,013**	**277,697**	**1,630,733**	**112,900**	**2,386,343**	**39,344**	**2,425,687**
Rent income	**–**	**–**	**–**	**303,852**	**303,852**	**(8,093)**	**295,759**
Other operating income (loss)	**15,994**	**10,234**	**12,653**	**165,826**	**204,707**	**(35,363)**	**169,344**
Total other operating income (loss)	**15,994**	**10,234**	**12,653**	**469,678**	**508,559**	**(43,456)**	**465,103**
Total operating income	**381,007**	**287,931**	**1,643,386**	**582,578**	**2,894,902**	**(4,112)**	**2,890,790**
Compensation and fringe benefits	**276,399**	**46,189**	**17,644**	**397,235**	**737,467**	**–**	**737,467**
Provision for (reversal of) credit and impairment losses – net	**–**	**–**	**941**	**17,822**	**18,763**	**(20,028)**	**(1,265)**
Taxes and licenses	**82,921**	**35,213**	**143,250**	**70,592**	**331,976**	**(8,343)**	**323,633**
Depreciation and amortization	**42,671**	**3,155**	**1,241**	**85,983**	**133,050**	**(55,158)**	**77,892**
Occupancy and other equipment-related costs	**93,596**	**2,648**	**1,475**	**–**	**97,719**	**(685)**	**97,034**
Other operating expenses	**108,808**	**10,314**	**40,082**	**247,818**	**407,022**	**(9,235)**	**397,787**
Segment profit (loss)	(223,388)	190,412	1,438,753	(236,872)	1,168,905	89,337	1,258,242
Provision for income tax	–	2,371	84,801	204,244	291,416	(1,257)	290,159
Net income (loss)	**(₱223,388)**	**₱188,041**	**₱1,353,952**	**(₱441,116)**	**₱877,489**	**₱90,594**	**₱968,083**
Segment Assets							
Investment in an associate	₱–	₱–	₱–	₱12,139	₱12,139	₱29	₱12,168
Property and equipment	599,215	44,304	17,427	1,207,432	1,868,378	(530,550)	1,337,828
Investment properties	–	–	–	3,466,059	3,466,059	130,063	3,596,122
Other assets	4,829,316	11,746,281	15,782,865	10,491,838	42,850,300	(1,965,251)	40,885,049
Total segment assets	₱5,428,531	₱11,790,585	₱15,800,292	₱15,177,468	₱48,196,876	(₱2,365,709)	₱45,831,167
Total segment liabilities	₱30,293,550	₱32,945	₱2,376,645	₱9,718,025	₱42,421,165	(₱1,151,897)	₱41,269,268

	2011						
	Consumer Banking	Corporate Banking	Treasury	Unallocated	RAP	RAP-PFRS Adjustments	PFRS
Segment Revenue							
Total revenue	₱528,843	₱172,213	₱981,811	₱23,492	₱1,706,359	(₱14,117)	₱1,692,242
Other operating income	(1,878)	33,367	(7,173)	578,212	602,528	104,061	706,589
Total operating income	526,965	205,580	974,638	601,704	2,308,887	89,944	2,398,831
Compensation and fringe benefits	230,478	43,846	20,309	263,807	558,440	63,821	622,261
Provision for credit and impairment losses - net	–	–	–	(130,108)	(130,108)	140,757	10,649
Taxes and licenses	74,006	304	13,198	216,615	304,123	(9,553)	294,570
Depreciation and amortization	30,719	2,870	1,330	83,872	118,791	(59,984)	58,807
Occupancy and equipment-related costs	105,334	2,824	1,493	(14,126)	95,525	(5,005)	90,520
Other operating expenses	135,394	40,076	73,660	1,208,384	1,457,514	(1,297,389)	160,125
Net operating income (loss)	(₱48,966)	₱115,660	₱864,648	(₱1,026,740)	(₱95,398)	₱1,257,297	₱1,161,899
Segment Results							
Net interest income	₱485,617	₱94,618	₱746,158	₱16,300	₱1,342,693	(₱14,117)	₱1,328,576
Service charges, fees, and commissions	43,226	77,595	38	6,814	127,673	–	127,673
Trading and securities gain - net	–	–	235,615	378	235,993	–	235,993
Total revenue	528,843	172,213	981,811	23,492	1,706,359	(14,117)	1,692,242
Rent income	–	–	–	290,288	290,288	(600)	289,688
Other operating income (loss)	(1,878)	33,367	(7,173)	287,924	312,240	104,661	416,901
Total other operating income (loss)	(1,878)	33,367	(7,173)	578,212	602,528	104,061	706,589
Total operating income	526,965	205,580	974,638	601,704	2,308,887	89,944	2,398,831
Compensation and fringe benefits	230,478	43,846	20,309	263,807	558,440	63,821	622,261
Provision for credit and impairment losses - net	–	–	–	(130,108)	(130,108)	140,757	10,649
Taxes and licenses	74,006	304	13,198	216,615	304,123	(9,553)	294,570
Depreciation and amortization	30,719	2,870	1,330	83,872	118,791	(59,984)	58,807
Occupancy and other equipment-related costs	105,334	2,824	1,493	(14,126)	95,525	(5,005)	90,520
Other operating expenses	135,394	40,076	73,660	1,208,384	1,457,514	(1,297,389)	160,125
Segment profit (loss)	(48,966)	115,660	864,648	(1,026,740)	(95,398)	1,257,297	1,161,899
Provision for income tax	25,229	1,499	60,517	161,676	248,921	116,615	365,536
Net income (loss)	(₱74,195)	₱114,161	₱804,131	(₱1,188,416)	(₱344,319)	₱1,140,682	₱796,363
Segment Assets							
Investment in an associate	₱–	₱–	₱–	₱11,710	₱11,710	₱–	₱11,710
Property and equipment	220,085	17,847	10,734	710,118	958,784	(6,716)	952,068
Investment properties	–	–	–	2,410,718	2,410,718	1,487,924	3,898,642
Other assets	4,830,426	6,706,150	15,313,258	15,205,295	42,055,129	(5,496,515)	36,558,614
Total segment assets	₱5,050,511	₱6,723,997	₱15,323,992	₱18,337,841	₱45,436,341	(₱4,015,307)	₱41,421,034
Total segment liabilities	₱26,629,123	₱98,654	₱2,690,311	₱9,233,559	₱38,651,647	(₱663,842)	₱37,987,805

	2010						
	Consumer Banking	Corporate Banking	Treasury	Unallocated	RAP	RAP-PFRS Adjustments	PFRS
Segment Revenue							
Total revenue	₱621,613	₱174,186	₱1,199,770	₱164,883	₱2,160,452	₱10,120	₱2,170,572
Other operating income	(57,827)	73,601	31	426,556	442,361	(91,773)	350,588
Total operating income	563,786	247,787	1,199,801	591,439	2,602,813	(81,653)	2,521,160
Compensation and fringe benefits	125,311	18,110	13,613	448,640	605,674	1,537	607,211
Provision for credit and impairment losses - net	–	–	–	212,136	212,136	(14,350)	197,786
Taxes and licenses	76,403	60	9,566	237,882	323,911	(9,528)	314,383
Depreciation and amortization	31,625	2,913	1,474	105,035	141,047	(64,502)	76,545
Occupancy and equipment-related costs	103,767	1,916	1,423	(36,283)	70,823	(3,653)	67,170
Other operating expenses	138,721	30,594	79,825	1,179,290	1,428,430	(1,086,194)	342,236
Net operating income (loss)	₱87,959	₱194,194	₱1,093,900	(₱1,555,261)	(₱179,208)	₱1,095,037	₱915,829

(Forward)

	2010						
	Consumer Banking	Corporate Banking	Treasury	Unallocated	RAP	RAP-PFRS Adjustments	PFRS
Segment Results							
Net interest income	₱558,770	₱110,300	₱691,724	₱155,204	₱1,515,998	(₱12,857)	₱1,503,141
Service charges, fees, and commissions	62,838	63,886	81	8,773	135,578	–	135,578
Trading and securities gain - net	5	–	507,965	906	508,876	22,977	531,853
Total revenue	621,613	174,186	1,199,770	164,883	2,160,452	10,120	2,170,572
Rent income	–	–	–	302,864	302,864	–	302,864
Other operating income (loss)	(57,827)	73,601	31	123,692	139,497	(91,773)	47,724
Total operating income (loss)	563,786	247,787	1,199,801	591,439	2,602,813	(81,653)	2,521,160
Compensation and fringe benefits	125,311	18,110	13,613	448,640	605,674	1,537	607,211
Provision for credit and impairment losses - net	–	–	–	212,136	212,136	(14,350)	197,786
Taxes and licenses	76,403	60	9,566	237,882	323,911	(9,528)	314,383
Depreciation and amortization	31,625	2,913	1,474	105,035	141,047	(64,502)	76,545
Occupancy and other equipment-related costs	103,767	1,916	1,423	(36,283)	70,823	(3,653)	67,170
Other operating expenses	138,721	30,594	79,825	1,179,290	1,428,430	(1,086,194)	342,236
Segment profit (loss)	87,959	194,194	1,093,900	(1,555,261)	(179,208)	1,095,037	915,829
Provision for income tax	29,976	992	57,438	185,812	274,218	54,259	328,477
Net income (loss)	₱57,983	₱193,202	₱1,036,462	(₱1,741,073)	(₱453,426)	₱1,040,778	₱587,352
Segment Assets							
Investment in an associate	₱–	₱–	₱–	₱11,300	₱11,300	₱–	₱11,300
Property and equipment	259,762	20,998	10,625	725,330	1,016,715	(24,372)	992,343
Investment properties	–	–	–	2,704,199	2,704,199	1,080,040	3,784,239
Other assets	4,269,123	6,843,797	12,980,401	16,127,700	40,221,021	(6,332,188)	33,888,833
Total segment assets	₱4,528,885	₱6,864,795	₱12,991,026	₱19,568,529	₱43,953,235	(₱5,276,520)	₱38,676,715
Total segment liabilities	₱26,209,176	₱86,137	₱3,450,203	₱9,431,130	₱39,176,646	(₱873,124)	₱38,303,522

Net operating gain (loss) after tax reported to the CODM which is based on RAP amounted to ₱877.49 million, (₱344.32) and (₱453.43) million in 2012, 2011 and 2010 respectively. The difference in the net operating loss based on RAP and PFRS primarily represents the annual amortization of SPV losses in 2011 and difference in the accounting treatment for investments properties and related transactions under RAP and PFRS.

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	2012	2011
SPURA	**₱500,000,000**	₱2,300,000,000
Interbank loans receivable	**493,804,210**	530,082,240
	₱993,804,210	₱2,830,082,240

As of December 31, 2012 and 2011, interbank loans receivable comprised of USD-denominated loans amounting to $12.03 (₱493.80) million and $12.09 (₱530.08) million, respectively. It includes placement with a local bank amounting to $1.00 (₱41.25) million and $1.00 (₱43.84) million, respectively, which has a term of four and six months, respectively, as of December 31, 2012 and 2011.

Interest income on interbank loans receivable and SPURA follows:

	2012	2011	2010
SPURA	**₱43,449,679**	₱41,086,111	₱23,244,445
Interbank loans receivable	**574,682**	608,147	694,976
	₱44,024,361	₱41,694,258	₱23,939,421

Interbank loans receivable bears nominal annual interest rate ranging from 0.10% to 0.40% in 2012, 0.10% to 0.29% in 2011 and from 0.15% to 0.50% in 2010, while SPURA bears nominal annual interest rates ranging from 3.50% to 4.41% in 2012, 4.00% to 4.70% in 2011 and from 3.50% to 4.75% in 2010.

The Bank is not permitted to sell or repledge the related collateral on interbank lending in the absence of default by the counterparty.

8. Available-for-Sale Investments

This account consists of investments in:

	2012	2011
Quoted:		
Government securities (Notes 16 and 22)	**₱16,744,365,118**	₱16,108,354,217
Equity securities	**23,130,000**	23,130,000
	16,767,495,118	16,131,484,217
Unquoted:		
Equity securities at cost	**18,329,753**	18,341,372
Less allowance for impairment losses (Note 14)	**7,022,320**	6,081,040
	11,307,433	12,260,332
	₱16,778,802,551	₱16,143,744,549

As of December 31, 2012 and 2011, quoted government securities include government securities amounting to ₱7.58 billion and ₱7.64 billion, respectively, which are pledged as collateral to PDIC to secure loans under the FAA (Note 1). As of December 31, 2012 and 2011, the fair values of these government securities amounted to ₱8.41 billion and ₱9.25 billion, respectively.

On September 29, 2011, the Bank requested for the substitution of the government securities which are pledged as collateral for the ₱7.64 billion loan to PDIC with other government securities and/or other acceptable risk-free instruments. On January 5, 2012, the PDIC approved the Bank's request for the substitution. On February 10, 2012, the Bank started implementing the substitution with an initial tranche of new pledge amounting to ₱2.00 billion. As of December 31, 2012, total substituted government securities sold amounted to ₱1.90 billion while gain recognized from these sales amounted to ₱285.79 million.

As of December 31, 2012 and 2011, net unrealized gains on AFS investments amounted to ₱0.67 billion and ₱1.72 billion, respectively. The movements in net unrealized gains on AFS investments follow:

	2012	2011
Balance at beginning of year	**₱1,723,163,315**	₱1,765,820,381
Changes in fair value of AFS investments	**(312,305,083)**	177,509,632
Securities gains from sale of AFS investments taken to profit or loss (Note 23)	**(738,069,044)**	(220,166,698)
	(1,050,374,127)	(42,657,066)
Balance at end of year	**₱672,789,188**	₱1,723,163,315

Reclassification
The 2008 global credit crunch had prompted the International Accounting Standards Board to issue the Amendments to International Accounting Standards 39 and International Financial Reporting Standards, which was adopted by the Philippine Financial Reporting Standards Council as amendments to PAS 39 and PFRS 7, respectively. These amendments permitted the Bank to revisit the existing classification of its financial assets.

The Bank identified financial assets amounting to ₱164.63 million eligible under the amendments, for which it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short-term and reclassified such assets from held-for-trading investments to HTM investments under rare circumstance (i.e., global credit crunch) on July 1, 2008.

These securities and the rest of the HTM investments were subsequently reclassified to AFS investments in 2010 due to tainting after the Bank exchanged ROP 19 bonds with carrying value of ₱102.87 million for ROP 34 with carrying value of ₱125.85 million under the bond exchange program of the Philippine Government on October 6, 2010. Gain realized from the exchange amounting to ₱22.98 million is included under trading and securities gain - net (Note 23).
As at the date of reclassification, the EIR of the outstanding reclassified security was 7.75%. The Bank expects to recover approximately the reclassified instrument's carrying amounts as of December 31, 2012 and 2011.

Had the above investments not been reclassified out of financial assets at FVPL, market gains of ₱4.00 million, ₱4.51 million and ₱15.85 million would have been credited to the statements of income in 2012, 2011 and 2010, respectively.

9. Loans and Receivables

This account consists of:

	2012	2011
Receivables from customers:		
Corporate loans	**₱13,083,053,247**	₱8,008,975,930
Consumer loans	**344,830,381**	332,401,818
	13,427,883,628	8,341,377,748
Unearned discounts and capitalized interest	**(13,110,367)**	(9,988,548)
	13,414,773,261	8,331,389,200
Unquoted debt securities	**3,376,220,500**	3,054,521,471
Accounts receivable	**846,595,178**	857,370,037
Accrued interest receivable	**831,144,496**	823,848,262
Sales contracts receivable	**125,758,447**	143,266,302
	18,594,491,882	13,210,395,272
Less allowance for credit losses (Note 14)	**2,636,997,342**	2,688,856,839
	₱15,957,494,540	₱10,521,538,433

Regulatory Reporting
Current banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those receivables 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 for regulatory accounting purposes. As of December 31, 2012 and 2011, nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

	2012	2011
NPLs	**₱1,303,086,122**	₱1,268,855,361
Less NPLs fully provided with allowance for credit losses	**1,171,714,929**	782,157,122
	₱131,371,193	₱486,698,239

On January 1, 2013, the BSP issued amendments to the regulations on NPLs through Circular 772. Under the circular, loans previously classified as loss by the BSP which are fully covered by allowance for credit losses were removed as exclusions from nonperforming classifications.

The following table shows the breakdown of receivables from customers (at gross amount) as to secured and unsecured and the breakdown of secured loans as to type of security (amounts in thousands):

	2012		2011	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**₱2,170,653**	**16.16**	₱1,225,128	14.69
Deposit hold-out	**1,755,978**	**13.08**	506,712	6.07
Chattel	**804,179**	**5.99**	81,442	0.98
Securities and others	**56,204**	**0.42**	307,760	3.69
Secured	**4,787,014**	**35.65**	2,121,042	25.43
Unsecured loans	**8,640,870**	**64.35**	6,220,336	74.57
	₱13,427,884	**100.00**	₱8,341,378	100.00

As of December 31, 2012 and 2011, information on the concentration of credit of loans and receivables (at gross amount but net of unearned discounts and capitalized interest) as to industry follows (amounts in thousands):

	2012		2011	
	Amount	**%**	Amount	%
Wholesale and retail trade	**₱4,970,270**	**26.73**	₱3,029,528	22.93
Manufacturing	**3,898,038**	**20.96**	3,303,389	25.01
Government	**3,345,842**	**17.99**	1,989,375	15.06
Construction and real estate	**3,064,628**	**16.48**	890,768	6.74
Transportation, storage and communications	**1,199,822**	**6.45**	2,422,222	18.34
Banks and financial institutions	**707,702**	**3.81**	235,400	1.78
Others	**1,408,190**	**7.57**	1,339,713	10.14
	₱18,594,492	**100.00**	₱13,210,395	100.00

The BSP considers that credit concentration risks exist when total loan exposure to a particular industry exceeds 30.00% of the total loan portfolio.

Unquoted Debt Securities
As of December 31, 2012 and 2011, unquoted debt securities consist of the following:

	2012	2011
Investments in:		
Metro Rail Transit bonds	**₱2,249,847,364**	₱1,936,108,312
Home Guaranty Corporation bonds	**1,004,123,136**	955,413,159
RFM Corporation bonds	**122,250,000**	163,000,000
	₱3,376,220,500	₱3,054,521,471

In 2012, the Bank changed its estimate based on the expected settlement dates of its investment in MRT bonds. The change in estimate resulted in acceleration of the accretion of discount on and increased the carrying value of MRT bonds. The effect of the change in estimate amounting to $4.99 (₱204.84) million which was accounted for prospectively, is credited to income in accordance with PAS 39 (Note 3). Under PAS 39, if an entity revises its estimates of receipts, the entity shall adjust the carrying amount of the financial asset to reflect actual and revised estimated cash flows. The entity is required to recalculate the carrying amount by computing the present value of estimated future cash flows at the original effective interest rate. The adjustment is recognized in profit or loss.

Accounts Receivable
Included in Accounts receivable is the tax withheld by the Bureau of Treasury (BTr) from the payment of the face value of the PEACe bonds upon their maturity. The receivable from BTr constitutes 90.96% of the total carrying amount of the accounts receivable. The Bank's investments in PEACe bonds matured on October 18, 2011 with a total face value of ₱3.00 billion.

Upon investing until the PEACe bonds matured, the Bank treated these PEACe bonds as a tax-exempt investment in accordance with Bureau of Internal Revenue (BIR) Ruling 020-2001 which the BIR has issued in 2001 to address the taxation of interest income from such bonds. Under BIR Ruling 020-2001, PEACe bonds were not considered to be a "public" borrowing having been issued to less than 20 investors, thus the bonds are not considered as "deposit substitutes" by virtue of Section 22Y of the 1997 Tax Code. Accordingly, interest income realized from the issuance of PEACe bonds was not subjected to the 20.00% final withholding tax (FWT).

However, on October 7, 2011, the BIR issued Ruling No. 370-2011 citing that the PEACe bonds are in the nature of deposit substitutes, thus the interest income on such bonds is subject to the 20.00% FWT. The decision under BIR Ruling No. 370-2011 was based on Rulings DA-491-04 and Ruling No. 008-05 which the BIR issued on September 13, 2004 and July 28, 2005, respectively.

These rulings effectively reversed BIR Ruling 020-2001 by stating that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of "deposit substitutes" irrespective of the number of lenders at the time of the origination and therefore interest income derived therefrom shall be subject to the applicable final tax rate as provided under Section 27(D)(1) of the 1997 Tax Code.

Due to BIR Ruling No. 370-2011, which imposes the withholding of the 20.00% FWT, the Bank and seven other investor banks have filed a case against the Government, the BIR, the BIR Commissioner, the Department of Finance (DoF), the Secretary of Finance, the BTr and the National Treasurer (collectively the 'Respondents') with the following prayers:

a) annul BIR Ruling 370-2011 and related BIR rulings of the same tenor and import, for being unconstitutional; and
b) prohibit the Respondents from imposing the 20.00% FWT or collecting it from the investor banks and/or the Respondents, particularly the BTr, to pay the full amount of the PEACe bonds in full upon maturity.

On October 18, 2011, the Supreme Court (SC) issued a temporary restraining order (TRO) in favor of the investor banks which ordered the following:
a) the Government to remit the full payment for the PEACe bonds to the banks; and
b) the Banks to deposit in an escrow account an amount equivalent to the 20.00% FWT.

However, the BTr did not observe the TRO claiming that it was received only a day after withholding of the FWT was made. On November 8, 2011, the investor banks filed a Manifestation with Urgent Ex Parte Motion to the SC to direct the Government to comply with the TRO.

On November 2, 2011, the BIR filed its comments on the petition filed by the investor banks to the SC. On December 1, 2011, the investor banks filed its replies in response to the BIR comments. The SC has yet to provide its decision on the case based on the replies received from the investor banks and the BIR.

As discussed in more detail in Note 2, the Bank considers several factors in determining whether a financial asset is impaired, including the present value of the expected future cash flows discounted at the asset's original contractual effective rate. As of December 31, 2012 and 2011, the Bank, in consultation with its legal counsel has determined that the principal amount is collectible.

Interest Income
Interest income on loans and receivables consists of interest income on:

	2012	2011	2010
Receivables from customers:			
Corporate	**₱586,140,537**	₱505,547,827	₱630,058,854
Consumer	**4,929,818**	11,263,032	15,717,655
Unquoted debt securities	**498,716,490**	432,973,001	466,994,523
Others	**10,962,185**	12,795,162	7,806,615
	₱1,100,749,030	₱962,579,022	₱1,120,577,647

There were no interest income accreted from impaired loans and receivables in 2012, 2011 and 2010.

Of the total receivables from customers of the Bank as of December 31, 2012 and 2011, 85.68% and 85.13%, respectively, are subject to periodic interest repricing. The remaining peso-denominated receivables from customers earn annual fixed interest rates ranging from 4.00% to 15.00% in 2012, 4.50% to 18.00% in 2011 and 6.50% to 18.50% in 2010, respectively, while foreign currency-denominated receivables from customers earn annual fixed interest rates of 4.00% to 9.25% in 2012, 5.00% to 9.82% in 2011, and 5.75% to 8.75% in 2010.

Unquoted debt securities have effective interest rates ranging from 3.75% to 11.90% in 2012 and 4.25% to 11.90% in 2011 and 2010. Sales contracts receivable bears interest rate ranging from 7.00% to 24.00% in 2012, 8.00% to 18.00% in 2011 and 10.00% to 18.00% in 2010.

10. Investment in an Associate

This account consists of investment in PBCom Finance as follows:

	2012	2011
Acquisition cost (40.00% owned)	**₱2,000,000**	₱2,000,000
Accumulated equity in net earnings	**10,168,477**	9,710,160
	₱12,168,477	₱11,710,160

Movements in accumulated equity in net earnings follow:

	2012	2011
Balance at beginning of year	**₱9,710,160**	₱9,299,640
Share in net income	**458,317**	410,520
Balance at end of year	**₱10,168,477**	₱9,710,160

Share in net income on PBCom Finance is included under 'Miscellaneous income' in the statement of income.

The comparative unaudited financial information of PBCom Finance follows:

	2012	2011
Statements of financial position		
Total assets	**₱27,810,195**	₱27,040,531
Total liabilities	**941,887**	602,717
Net assets	**26,868,308**	26,437,814
Statements of income		
Revenue	**3,806,981**	3,713,784
Net income	**1,145,793**	1,026,299

11. Property and Equipment

The composition of and movements in property and equipment carried at cost follow:

	2012				
	Condominium Properties (Note 12)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements - Net	Total
Cost					
Balance at beginning of year	₱514,259,019	₱313,491,727	₱514,057,927	₱25,259,119	₱1,367,067,792
Additions	6,689,752	1,561,470	180,672,158	16,447,814	205,371,194
Disposals	–	–	(36,754,416)	–	(36,754,416)
Transfers (Note 12)	252,519,890	(11,664,184)	–	–	240,855,706
Amortization	–	–	–	(12,554,538)	(12,554,538)
Balance at end of year	773,468,661	303,389,013	657,975,669	29,152,395	1,763,985,738

(Forward)

	2012				
	Condominium Properties (Note 12)	**Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements - Net**	**Total**
Accumulated Depreciation					
Balance at beginning of year	**₱96,949,918**	**₱229,855,476**	**₱453,527,473**	**₱–**	**₱780,332,867**
Depreciation	**9,701,638**	**10,858,815**	**37,809,315**	**–**	**58,369,768**
Disposals	**–**	**–**	**(31,191,728)**	**–**	**(31,191,728)**
Transfers (Note 12)	**–**	**(6,381,786)**	**–**	**–**	**(6,381,786)**
Balance at end of year	**106,651,556**	**234,332,505**	**460,145,060**	**–**	**801,129,121**
Accumulated Impairment (Note 14)					
Balance at beginning of year	**–**	**3,967,216**	**–**	**–**	**3,967,216**
Provisions/(Reversals)	**–**	**(3,967,216)**	**2,694,838**	**–**	**(1,272,378)**
Balance at end of year	**–**	**–**	**2,694,838**	**–**	**2,694,838**
Net Book Value at End of Year	**₱666,817,105**	**₱69,056,508**	**₱195,135,771**	**₱29,152,395**	**₱960,161,779**

	2011				
	Condominium Properties (Note 12)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements - Net	Total
Cost					
Balance at beginning of year	₱514,259,019	₱312,730,876	₱511,048,502	₱29,614,940	₱1,367,653,337
Additions	–	760,851	32,612,109	4,002,456	37,375,416
Disposals	–	–	(29,602,684)	–	(29,602,684)
Amortization	–	–	–	(8,358,277)	(8,358,277)
Balance at end of year	514,259,019	313,491,727	514,057,927	25,259,119	1,367,067,792
Accumulated Depreciation					
Balance at beginning of year	87,536,091	219,130,304	457,980,835	–	764,647,230
Depreciation	9,413,827	10,725,172	21,905,648	–	42,044,647
Disposals	–	–	(26,359,010)	–	(26,359,010)
Balance at end of year	96,949,918	229,855,476	453,527,473	–	780,332,867
Accumulated Impairment (Note 14)					
Balance at beginning of year	–	7,942,430	–	–	7,942,430
Reversals	–	(3,975,214)	–	–	(3,975,214)
Balance at end of year	–	3,967,216	–	–	3,967,216
Net Book Value at End of Year	₱417,309,101	₱79,669,035	₱60,530,454	₱25,259,119	₱582,767,709

The condominium properties and buildings have a fair value of ₱846.93 million and ₱206.25 million, respectively, in 2012 and ₱776.60 milion and ₱218.24 million in 2011, respectively.

Details of land at appraised value are as follows:

	2012	2011
Cost		
Balance at beginning of year	**₱130,092,688**	₱130,092,688
Additions	**–**	–
Transfers (Note 12)	**(12,415,000)**	–
Balance at end of year	**117,677,688**	130,092,688
Appraisal Increment		
Balance at beginning of year	**247,515,062**	275,017,062
Additions	**39,964,950**	–
Reversals	**(20,496,000)**	(27,502,000)
Balance at end of year	**266,984,012**	247,515,062
Less Allowance for Impairment Losses (Note 14)	**6,994,000**	8,307,750
	₱377,667,700	₱369,300,000

Depreciation and Amortization
Details of this account are as follows:

	2012	2011	2010
Property and equipment	**₱70,924,306**	₱50,402,924	₱56,551,293
Software cost (Note 13)	**6,967,828**	8,403,727	19,425,763
Chattel mortgage*	**–**	–	567,496
	₱77,892,134	₱58,806,651	₱76,544,552

*Chattel mortgage is included under Miscellaneous assets – net and has nil value as of December 31, 2012 and 2011.

12. Investment Properties

The composition of and movements in this account follow:

	2012			
	Foreclosed Properties			
	Land	**Building and improvements**	**Total**	**Condominium units for lease**
Balance at beginning of year	**₱321,915,270**	**₱110,319,124**	**₱432,234,394**	**₱3,466,407,778**
Additions	**–**	**–**	**–**	**6,420,586**
Disposals	**(55,391,163)**	**(14,235,630)**	**(69,626,793)**	**–**
Transfers (Note 11)	**12,415,000**	**5,282,398**	**17,697,398**	**(252,519,890)**
Net loss from fair value adjustments	**(1,671,250)**	**(2,820,448)**	**(4,491,698)**	**–**
Balance at end of year	**₱277,267,857**	**₱98,545,444**	**₱375,813,301**	**₱3,220,308,474**

	2011			
	Foreclosed Properties			
	Land	Building and improvements	Total	Condominium units for lease
Balance at beginning of year	₱496,103,189	₱168,538,049	₱664,641,238	₱3,119,598,000
Additions	11,442,136	1,935,342	13,377,478	3,003,028
Disposals	(158,577,822)	(58,338,996)	(216,916,818)	–
Net gain (loss) from fair value adjustments	(27,052,233)	(1,815,271)	(28,867,504)	343,806,750
Balance at end of year	₱321,915,270	₱110,319,124	₱432,234,394	₱3,466,407,778

Investment properties are stated at fair value, which has been determined based on valuations made by independent appraisers accredited by BSP and SEC. The fair values of foreclosed assets were derived 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 valuation were made.

On the other hand, the fair value of the condominium units for lease was determined using the income approach model, a valuation model in accordance with that recommended by the International Valuation Standards. The income approach model is used since the properties generate revenue from rental income. The following main inputs have been used in valuing condominium units for lease:

	2012	2011	2010
Capitalization rate	**8.8%**	9.0%	9.5%
Vacancy rate	**5.0%**	5.0%	5.0%
Rental growth rate	**6.0%**	7.0%	7.0%

Condominium units for lease represents the contributed cost of developing the Bank's Ayala Avenue property, originally consisting of land and fully depreciated building, into a 52-storey building named PBCom Tower under a joint development agreement with Filinvest Asia Corporation (Filinvest Asia).

The agreement provided for equal sharing of the cost of the project and, correspondingly, of the net usable area of the building, which was converted into a condominium property. Under the agreement, the Bank's share in such cost included its land along Ayala Avenue, which was given an appraised value of ₱900.00 million in 1995. The related appraisal increment was closed to surplus, net of applicable deferred tax liability, upon completion of the project in 2000.

In November 2007, by virtue of condominiumization, various CCTs under the name of the Bank were derived from TCT No. 134599 wherein the declaration of restrictions and scope of coverage were annotated on October 23, 2007.

In November 2012, management has decided to use the half of 15th floor and the entire 18th floor of PBCom Tower for administrative purposes to house employees both from the Bank's Binondo Office for operational efficiencies. Accordingly, the carrying values of these units were reclassified to property and equipment.

As of December 31, 2012 and 2011, about 78.57% and 84.55%, respectively, of the usable area that the Bank acquired under such project is held for lease or sale, with the balance used for the Bank's operations. Accordingly, the cost allocable to the area held for lease is carried as Investment Properties, while the remaining balance is carried as condominium property and included in Property and Equipment at cost (Note 11).

The Bank recognized rental income (shown under 'Rent income' in the statements of income) amounting to ₱287.78 million , ₱281.49 million and ₱296.68 million in 2012, 2011 and 2010, respectively, on condominium properties leased out under operating leases.

In 2012, 2011 and 2010, the Bank recognized gain on foreclosures (presented under 'Profit from asset sold or exchanged') amounting to nil, ₱8.31 million, and ₱5.04 million, respectively. In 2012, the Bank recognized gain on sale of foreclosed assets (presented under 'Profit from asset sold or exchanged') amounting to ₱117.97 million. Foreclosed assets disposed in 2011 and 2010 were sold at their carrying values.

The BSP, based on BSP Circular No. 494, requires that foreclosed assets be booked initially at the carrying amount of the loan plus booked accrued interest less allowance for probable losses plus transaction costs incurred upon acquisition.

Had the foreclosed assets been booked based on BSP Circular No. 494 and the condominium units for lease are booked using the cost model, investment properties as of December 31, 2012, 2011 and 2010 would have been ₱3.47 billion, ₱2.51 billion, and ₱2.67 billion, respectively. Net income in 2012, 2011 and 2010 would have been decreased by ₱29.50 million, ₱158.43 million and ₱187.51 million, respectively.

13. **Other Assets**

This account consists of:

	2012	2011
Prepaid expenses	**₱129,578,651**	₱74,717,185
Branch licenses	**102,100,153**	102,100,153
Software cost	**52,419,574**	2,825,568
RCOCI	**5,691,411**	5,071,526
Derivative assets (Note 21)	**2,146,917**	648,683
Miscellaneous	**266,960,843**	265,061,478
	558,897,549	450,424,593
Less allowance for impairment losses (Note 14)	**353,258,627**	311,934,272
	₱205,638,922	₱138,490,321

Branch Licenses
As of December 31, 2012 and 2011, branch licenses have been provided with full allowance.

Software Cost
The movements of software cost follow:

	2012	2011
Balance at beginning of year	**₱2,825,568**	₱6,642,048
Additions during the year	**56,561,834**	4,587,247
	59,387,402	11,229,295
Amortization during the year (Note 11)	**(6,967,828)**	(8,403,727)
	₱52,419,574	₱2,825,568

Additions in 2012 include licenses for internet banking solutions, enrollment application platform and core banking system.

Miscellaneous
Refundable security deposits recorded under 'Miscellaneous - net' amounted to ₱18.08 million and ₱15.34 million as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, Miscellaneous included the amount of ₱6.08 million representing the balance of the escrow account which the Bank, the SPV and a local bank entered into under an Escrow Agreement as part of the ASPA. The amount in the escrow represents the portion that has to be retained to secure the fulfillment by the Bank of its representations and warranties and to apply any adjustment in the purchase price in accordance with the ASPA.

Miscellaneous also includes assets amounting to ₱213.04 million and ₱207.98 million as of December 31, 2012 and 2011, respectively, which are provided with 100% allowance provision.

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

Changes in the allowance for credit and impairment losses follow (amounts in thousands):

	2012	2011
Balance at beginning of year:		
AFS investments (Note 8)	**₱6,081**	₱6,104
Loans and receivables (Note 9)	**2,688,857**	2,675,854
Property and equipment (Note 11)	**12,275**	15,773
Other assets (Note 13)	**311,934**	312,036
	3,019,147	3,009,767
Provisions for (reversal of) credit and impairment losses	**(1,265)**	10,649
Revaluation of FCDU loans	**(2,658)**	(1,229)
Accounts written off and others	**(8,257)**	(40)
	(12,180)	9,380
Balance at end of year:		
AFS investments (Note 8)	**7,022**	6,081
Loans and receivables (Note 9)	**2,636,997**	2,688,857
Property and equipment (Note 11)	**9,689**	12,275
Other assets (Note 13)	**353,259**	311,934
	₱3,006,967	₱3,019,147

Below is the breakdown of provisions for (reversals of) credit and impairment losses (amounts in thousands):

	2012	2011
AFS investments	**₱941**	₱–
Loans and receivables	**–**	14,147
Property and equipment	**(2,586)**	(3,498)
Other assets	**380**	–
	(₱1,265)	₱10,649

With the foregoing level of allowance for credit and impairment losses, management believes that the Bank has sufficient allowance to take care of any losses that the Bank may incur from the noncollection or nonrealization of its receivables and other risk assets. A reconciliation of the allowance for credit losses by class of loans and receivables follows (in thousands):

	2012			
	Corporate	**Consumer**	**Others***	**Total**
Balance at beginning of year	**₱1,544,724**	**₱243,911**	**₱900,222**	**₱2,688,857**
Revaluation	**(2,658)**	**–**	**–**	**(2,658)**
Others**	**(117,464)**	**–**	**68,262**	**(49,202)**
Balance at end of year	**₱1,424,602**	**₱243,911**	**₱968,484**	**₱2,636,997**
Individual impairment	**₱587,335**	**₱228,501**	**₱388,206**	**₱1,204,042**
Collective impairment	**837,267**	**15,410**	**580,278**	**1,432,955**
	₱1,424,602	**₱243,911**	**₱968,484**	**₱2,636,997**
Gross amount of loans individually determined to be impaired	**₱1,388,057**	**₱228,501**	**₱803,303**	**₱2,419,861**

*This includes allowance for credit losses on accounts receivables, accrued interest receivables and sales contract receivables.
**This includes transfers and write-offs.

	2011			
	Corporate	Consumer	Others*	Total
Balance at beginning of year	₱1,551,289	₱239,475	₱885,090	₱2,675,854
Provisions during the year	(5,336)	4,436	15,047	14,147
Revaluation	(1,229)	–	–	(1,229)
Others**	–	–	85	85
Balance at end of year	₱1,544,724	₱243,911	₱900,222	₱2,688,857
Individual impairment	₱766,076	₱228,501	₱868,243	₱1,862,820
Collective impairment	778,648	15,410	31,979	826,037
	₱1,544,724	₱243,911	₱900,222	₱2,688,857
Gross amount of loans individually determined to be impaired	₱1,066,930	₱228,501	₱883,991	₱2,179,422

*This includes allowance for credit losses on accounts receivables, accrued interest receivables and sales contract receivables.
**This includes transfers and write-offs.

15. Deposit Liabilities

BSP Circular 753 which took effect on April 6, 2012, promulgated the unification of the statutory/legal and liquidity reserve requirement on non-FCDU deposit liabilities from 21.00% to 18.00%. Formerly, there was a separate reserve requirement percentage for liquidity and statutory reserves equivalent to 11.00% and 10.00%, respectively. Also, with the new regulation, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements. This was tantamount to the exclusion of government securities and cash in vault as eligible reserves. As of December 31, 2012 and 2011, the Bank is in compliance with such regulation.

As of December 31, 2012 and 2011, the following assets were set aside as reserves for deposit liabilities (amounts in thousands):

	2012	2011
Cash and other cash items*	₱–	₱306,545
Due from BSP*	5,261,481	5,880,487
	₱5,261,481	₱6,187,032

*Based on December 28, 2012 and December 29, 2011 balances

Interest expense on deposit liabilities consists of:

	2012	2011	2010
Demand	₱46,215,337	₱44,271,797	₱36,945,059
Savings	15,005,957	16,541,586	15,608,360
Time	723,342,580	745,088,393	824,627,579
	₱784,563,874	₱805,901,776	₱877,180,998

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.50% to 4.00%, from 0.75% to 4.50% and from 0.50% to 4.75% in 2012, 2011 and 2010, respectively, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.13% to 2.25%, from 0.50% to 2.25% and from 0.50% to 3.00% in 2012, 2011 and 2010, respectively.

16. **Bills Payable**

This account consists of borrowings from:

	2012	2011
Banks and other financial institutions	**₱6,636,777,800**	₱6,074,810,113
Private firms and individuals	**1,186,734,856**	1,281,036,259
	₱7,823,512,656	₱7,355,846,372

Borrowings from banks and other financial institutions include borrowing from PDIC with loan principal amounting to ₱7.64 billion, which are fully secured by government securities under the FAA, as discussed in Note 1. The fair values of the government securities used as collateral for the PDIC loan amounted to ₱8.41 billion and ₱9.25 billion, as of December 31, 2012 and 2011, respectively. The borrowing from PDIC was measured initially at fair value and carried at amortized cost of ₱6.64 billion and ₱5.93 billion, as of December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, related unamortized day 1 gain on bills payable to PDIC which is presented as "Unearned income" under other liabilities amounted to ₱972.20 million and ₱1.66 billion, respectively (Note 18).

Interest expense on bills payable and other borrowings consists of:

	2012	2011	2010
Financial assistance	**₱706,659,555**	₱624,051,417	₱551,013,332
Borrowed funds	**130,645,115**	147,100,510	168,620,157
	₱837,304,670	₱771,151,927	₱719,633,489

There were no peso interbank borrowings in 2012 and 2011. Dollar interbank borrowings are subject to annual floating interest rates of 1.12% in 2012, 0.88% to 0.90% in 2011 and from 0.86% to 2.27% in 2010. There were no peso and dollar rediscounting availments in 2012 and 2011.

Borrowings from private firms and individuals represent deposit substitutes with maturities of 30 to 90 days and bear annual interest rates ranging from 2.50% to 4.00%, from 3.00% to 5.00%, and from 2.50% to 4.38%, in 2012, 2011 and 2010, respectively.

As of December 31, 2012 and 2011, the following assets were set aside as reserves for deposit substitutes (amounts in thousands):

	2012	2011
Cash and other cash items*	**₱–**	₱90,111
Due from BSP*	**211,965**	162,199
	₱211,965	₱252,310

*Based on December 28, 2012 and December 29, 2011 balances

17. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2012	2011
Financial		
Accrued interest payable	**₱80,613,386**	₱79,695,593
Accrued other expenses	**109,312,247**	111,226,225
	189,925,633	190,921,818
Nonfinancial		
Retirement liability (Note 24)	**68,876,735**	66,336,861
Accrued taxes and licenses	**16,378,085**	17,828,045
	85,254,820	84,164,906
	₱275,180,453	₱275,086,724

Included in accrued taxes and licenses is income tax payable as of December 31, 2012 and 2011 amounting to ₱67,668 and ₱59,195, respectively.

18. Other Liabilities

This account consists of:

	2012	2011
Unearned income (Note 16)	**₱972,199,384**	₱1,656,215,538
Refundable security deposits	**95,851,448**	109,482,754
Accounts payable	**63,896,481**	62,326,322
Deferred credits	**46,043,529**	87,605,962
Interoffice float items-net	**41,087,486**	–
Withholding taxes payable	**24,751,612**	22,637,349
Due to the Treasurer of the Philippines	**10,796,171**	16,587,168
Miscellaneous	**27,545,196**	65,095,397
	₱1,282,171,307	₱2,019,950,490

Unearned income primarily pertains to the difference between the principal amount and the present value of the FAA granted by PDIC (Notes 1 and 16). Unearned income is amortized over the term of the financial assistance using the effective interest method and is shown under 'Interest income - others' in the statement of income. In 2012, 2011 and 2010, amortization of unearned income amounted to ₱684.02 million, ₱608.23 million and ₱515.35 million, respectively.

Miscellaneous liabilities includes provision for tax assessments, marginal deposit, cash letters of credit, and deposit liabilities classified as dormant.

19. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled (amounts in thousands):

	2012			2011		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	**₱551,098**	**₱–**	**₱551,098**	₱369,164	₱–	₱369,164
Due from BSP	**5,511,067**	**–**	**5,511,067**	6,040,783	–	6,040,783
Due from other banks	**887,143**	**–**	**887,143**	514,812	–	514,812
Interbank loans receivable and SPURA	**993,804**	**–**	**993,804**	2,830,082	–	2,830,082
AFS investments (Note 8)	**90,562**	**16,695,263**	**16,785,825**	124,415	16,025,411	16,149,826
Loans and receivables (Note 9)						
Receivables from customers	**10,360,075**	**3,067,809**	**13,427,884**	6,453,005	1,888,373	8,341,378
Unquoted debt securities	**1,288,809**	**2,087,412**	**3,376,221**	–	3,054,521	3,054,521
Accounts receivable	**420,920**	**425,675**	**846,595**	431,695	425,675	857,370
Accrued interest receivable	**358,451**	**472,693**	**831,144**	351,155	472,693	823,848
Sales contract receivable	**15,849**	**109,910**	**125,759**	3,095	140,171	143,266
Other assets (Note 10)						
Derivative assets	**2,147**	**–**	**2,147**	649	–	649
Refundable deposits	**–**	**18,084**	**18,084**	–	15,324	15,324
RCOCI	**5,691**	**–**	**5,691**	5,072	–	5,072
	20,485,616	**22,876,846**	**43,362,462**	17,123,927	22,022,168	39,146,095
Nonfinancial Assets - at gross						
Property and equipment (Note 11)	**–**	**2,148,647**	**2,148,647**	–	1,744,676	1,744,676
Investment properties (Note 12)						
Condominium units for lease	**–**	**3,220,308**	**3,220,308**	–	3,466,408	3,466,408
Foreclosed assets	**–**	**375,813**	**375,813**	–	432,234	432,234
Investment in an associate (Note 10)	**–**	**12,168**	**12,168**	–	11,710	11,710
Other assets (Note 13)	**–**	**532,975**	**532,975**	–	429,381	429,381
	–	**6,289,911**	**6,289,911**	–	6,084,409	6,084,409
	₱20,485,616	**₱29,166,757**	**49,652,373**	₱17,123,927	₱28,106,577	45,230,504
Less:						
Unearned interest and discounts (Note 9)			**(13,110)**			(9,989)
Accumulated depreciation and amortization (Note 11)			**(801,129)**			(780,334)
Allowance for credit and impairment losses (Note 14)			**(3,006,967)**			(3,019,147)
Total			**₱45,831,167**			₱41,421,034
Financial Liabilities						
Deposit liabilities						
Demand	**₱5,788,177**	**₱–**	**₱5,788,177**	₱4,883,897	₱–	₱4,883,897
Savings	**2,751,041**	**–**	**2,751,041**	2,424,175	–	2,424,175
Time	**15,700,097**	**7,117,000**	**22,817,097**	19,964,715	545,104	20,509,819
Bills payable	**1,186,735**	**6,636,778**	**7,823,513**	1,368,295	5,987,552	7,355,847
Outstanding acceptances	**32,322**	**–**	**32,322**	57,006	–	57,006
Manager’s checks	**67,050**	**–**	**67,050**	33,800	–	33,800
Accrued interest payable (Note 17)	**80,613**	**–**	**80,613**	79,696	–	79,696
Accrued other expenses (Note 17)	**109,312**	**–**	**109,312**	111,226	–	111,226
Other liabilities (Note 18)						
Refundable security deposits	**37,351**	**58,500**	**95,851**	56,288	53,195	109,483
Accounts payable	**63,896**	**–**	**63,896**	62,326	–	62,326
Due to the Treasurer of the Philippines	**10,796**	**–**	**10,796**	16,587	–	16,587
	25,827,390	**13,812,278**	**39,639,668**	29,058,011	6,585,851	35,643,862
Nonfinancial Liability						
Income tax payable	**68**	**–**	**68**	59	–	59
Deferred tax liabilities (Note 27)	**–**	**432,716**	**432,716**	–	428,223	428,223
Retirement liability (Notes 17 and 24)	**–**	**68,877**	**68,877**	–	66,337	66,337
Accrued taxes and licenses (Note 17)	**16,310**	**–**	**16,310**	17,769	–	17,769
Other liabilities:						
Unearned income	**–**	**972,199**	**972,199**	684,923	971,293	1,656,216
Deferred credits	**–**	**46,044**	**46,044**	87,606	–	87,606
Miscellaneous	**–**	**93,386**	**93,386**	–	87,733	87,733
	16,378	**1,613,222**	**1,629,600**	790,357	1,553,586	2,343,943
	₱25,843,768	**₱15,425,500**	**₱41,269,268**	₱29,848,368	₱8,139,437	₱37,987,805

20. **Equity**

Capital Stock

Capital stock consists of:

Preferred stock - ₱25 par value	
Authorized and issued - 120,000,000 shares	₱3,000,000,000
Common stock - ₱100 par value	
Authorized - 145,000,000 shares	
Issued - 52,598,965 shares	5,259,896,500
	₱8,259,896,500

The Bank became listed in the Philippine Stock Exchange (PSE), formerly The Manila Stock Exchange, on May 12, 1988. After its listing to the PSE, there was no succeeding offer/selling to the public of the Bank's shares.

Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type/Class	Authorized Shares	Par Value
November 23, 1988	Common Class A	7,000,000	100
	Common Class B	3,000,000	100
June 3, 1993	Common Class A	14,000,000	100
	Common Class B	6,000,000	100
September 11, 1997	Common	65,000,000	100
April 6, 2001	Common	145,000,000	100
March 31, 2006	Common	145,000,000	100
	Preferred	120,000,000	25

As confirmed with the Bank's transfer agent, AB Stock Transfers Corporation, the total number of shareholders is 383 and 392 as of December 31, 2012 and 2011, respectively.

Preferred shares are non-redeemable, nonconvertible and have the same voting rights, dividend rights, and other rights as the holder of common shares.

On January 18, 2012, the BOD in its regular meeting approved the quasi-reorganization and increase in authorized capital stock of the Bank. The quasi-reorganization will reduce the par value of the Bank's 145.00 million authorized common shares from ₱100.00 to ₱25.00 and that the 120.00 million authorized preferred shares with par value of ₱25.00 will be declassified and converted to common shares with par value of ₱25.00. Further, the authorized capital stock will be increased to ₱19.00 billion divided into 760.00 million shares with par value of ₱25.00.

On March 28, 2012, the shareholders of the Bank representing at least two thirds (2/3) of the outstanding capital stock ratified the said quasi-reorganization and increase in authorized capital stock.

On December 19, 2012 , the Bank applied for the said quasi-reorganization and increase in authorized capital stock with the BSP and SEC, respectively. On February 8, 2013, the BSP has issued a Certicate of Authority to enable the Bank to register its Amended Articles of Incorporation and Amended By-Laws with the SEC. As of February 27, 2013, the matter is still pending formal approval from the SEC.

Deposit for Future Stock Subscription
On December 27, 2011, the Chung and Nubla Groups entered into a subscription agreement where the two shareholders subscribed to the new common shares of the Bank at ₱27.88 per share. Cash received from the subscription amounting to ₱2.37 billion is shown under the Deposit for future stock subscription account in the equity section of the statement of financial position. To effect the subscription on the new common stocks at the agreed price per share, the Bank will implement a quasi-reorganization and increase in authorized capital stock. The ratification of the Amendment of Article VII of the Articles of Incorporation in relation to quasi-reorganization and increase in authorized capital stock was approved by the Bank's BOD on January 18, 2012 and was approved by the stockholders on March 28, 2012.

In March 2012, additional cash subscription payments of ₱155.55 million and ₱252.29 million were made by the Nubla and Chung Groups, respectively. On April 4, 2012, the Bank's stockholder, the ISM Group also made cash subscription payments amounting to ₱22.71 million. On May 31, 2012 and October 4, 2012, LFM Properties Group deposited the amount of ₱719.01 million and ₱30.00 million, respectively, as subscription payments. As of December 31, 2012 and 2011, in accordance with the subscription agreements of the above stockholder and investors of the Bank, the deposits for future subscription will be exchanged for 126.97 million shares and 85.12 million shares, respectively.

As of December 31, 2012 and 2011, the Bank met all the required conditions to account for deposit for future stock subscription as equity.

Surplus Reserves
As of December 31, 2012 and 2011, surplus reserves consist of reserve for trust business, and self-insurance amounting to ₱88.65 million and ₱17.12 million, respectively.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock. Surplus reserve for self-insurance represents the amount set aside to cover for losses due to fire, defalcation by and other unlawful acts of the Bank's personnel or third parties.

Deficit
As of December 31, 2012 and 2011, deficit included accumulated equity in net earnings of associates amounting to ₱10.17 million and ₱9.71 million, respectively, and fair value gain on investment property amounting to ₱315.55 million and ₱320.04 million, respectively, which are not available for dividend declaration.

The accumulated equity in net earnings of associates can only be made available for dividend declaration when the related associate has declared dividend income. On the other hand, the fair value gain on investment properties will be included as part of retained earnings available for dividend declaration when the properties are sold and the gain is realized.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 differs to a certain extent from the computation following BSP Guidelines.

Capital Management
The primary objectives of the Bank's capital management are to ensure that the Bank complies with regulatory capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, with the prior approval of PDIC pursuant to the Financial Assistance Agreement dated March 15, 2004, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("Bank for International Settlements rules/ratios") and adopted by the BSP in supervising the Bank. The Bank had complied in full with all its regulatory capital requirements.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "qualifying 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.

In addition to the required RBCAR of at least 12.50% under the FAA, the RBCAR of the Bank expressed as a percentage of qualifying capital to risk weighted assets, should not be less than 10.00%. Qualifying capital and risk weighted assets are computed based on BSP regulations.

The BSP, under BSP Circular No. 538 dated August 4, 2006, has issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II recommendations. The new BSP guidelines took effect on July 1, 2007. The Bank's RBCAR as reported to BSP as of December 31, 2012 and 2011 are shown in the table below (amounts in millions):

	2012	2011
Tier 1 capital*	**₱3,950.05**	₱4,050.04
Tier 2 capital	**1,632.86**	2,644.28
Gross qualifying capital	**5,582.91**	6,694.32
Less: Required deductions		
Reduction from tier 1 (50.00%) and tier 2 (50.00%)	**12.14**	11.71
Total qualifying capital	**₱5,570.77**	₱6,682.61
Risk-weighted assets	**₱27,245.22**	₱25,719.69
Tier 1 capital ratio	**14.48%**	15.72%
Total capital ratio	**20.45%**	25.98%

*2011 amounts include deferred charge of ₱4.78 billion which represents unamortized SPV losses.

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which comprises paid-up common and preferred stock, surplus including current year profit and surplus reserves less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI) and deferred income tax and significant minority investments in banks and other financial allied undertakings. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes appraisal increment reserves, as authorized by the monetary board and general loan loss provision. As of December 31, 2012 and 2011, the Bank is in compliance with the required RBCAR of at least 12.50% under the FAA.

Internal Capital Adequacy Assessment Process (ICAAP)
The ICAAP methodology of the Bank was based on the minimum regulatory capital requirement under the BSP Circular No. 639 which involved, first, an assessment of whether the risk covered by the Framework are fully captured; and second, an assessment of other risks the Bank is exposed which are not fully captured and covered under the Framework, and an assessment of whether and how much capital to allocate against these other risks. The ICAAP Document was presented by the Bank to the BSP on January 31, 2013.

The ICAAP which included the discussion on the 2013 Risk Appetite Framework was deliberated upon by the Risk Management Committee and endorsed to the BOD for approval.

21. Commitments and Contingent Liabilities

In the normal course of operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, forward exchange contracts, and commitments to extend credit, which are not presented in the accompanying financial statements. The Bank does not anticipate any material losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2012	2011
Trust department accounts	**₱4,781,724,820**	₱5,672,863,268
Currency forwards:		
Bought	**697,937,000**	307,560,000
Sold	**697,850,000**	306,880,000
Standby LC	**479,011,020**	468,089,272
Spot exchange:		
Bought	**451,690,000**	131,840,000
Sold	**451,575,000**	131,890,000
Sight LC outstanding	**216,902,893**	125,269,194
Usance LC outstanding	**99,555,666**	44,012,921
Deficiency claims receivable	**27,498,152**	33,984,220
Late deposits/payment received	**20,111,356**	3,918,968
Outstanding shipping guarantees	**16,218,853**	10,428,300
Outward bills for collection	**13,483,878**	3,606,818
Inward bills for collection	**4,641,324**	10,722,467
Items held for safekeeping	**8,784**	8,067
Items held as collateral	**2,506**	2,696
Other contingent	**7,000,000**	2,500,000

In 2007, the Bank availed of the tax amnesty program under RA No. 9480 to settle outstanding tax assessments. Under RA No. 9480, taxpayers who availed of the tax amnesty program shall be immune from payment of taxes, including interests and surcharges and any civil, criminal or administrative penalties arising from failure to pay any and all internal revenue taxes for taxable year 2005 and prior years.

As of December 31, 2010, the Bank has an outstanding case with the CTA on tax assessments from the BIR covering taxable years 1996 to 1997. In 2011, the Bank received an "Entry of Judgment with finality" from the Supreme Court on its favor with regards to revenue related tax assessment. Accordingly, provisions charged against prior years (included under Miscellaneous liabilities) amounting to ₱197.87 million were recorded as a reversal of provision for tax assessments (Note 26).

The Bank has several loan-related suits and claims that remain unsettled. It is not practicable to estimate the potential financial statement impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums having a material effect on the financial statements.

The Bank is a defendant in legal actions arising from its normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Bank's financial statements.

Derivative Financial Instruments
As of December 31, 2012 and 2011, the aggregate notional amount of the outstanding sell US dollar currency forwards amounted to US$17.00 million and US$7.00 million, respectively, and with terms ranging from 2 to 28 days and 8 to 14 days, respectively. As of December 31, 2012 and 2011, the weighted average sell US dollar forward rate is ₱41.06 and ₱43.94, respectively.

In 2012, 2011 and 2010, realized gain (loss) on currency forwards recorded under 'Trading and securities gain - net' in the statements of income amounted to ₱6.78 million, ₱7.77 million and ₱1.83 million (Note 23), respectively.

In 2012, 2011 and 2010, unrealized gain on currency forwards recorded under 'Trading and securities gain - net' in the statements of income amounted to ₱2.15 million, ₱0.65 million and ₱1.88 million, respectively.

22. **Trust Operations**

Securities and other properties (other than deposits) held by the Bank in its fiduciary or agency capacity for its customers are not included in the statements of financial position since these are not assets of the Bank. Total assets held by the Bank's trust department amounted to ₱4.78 billion and ₱5.67 billion as of December 31, 2012 and 2011, respectively (Note 21).

As of December 31, 2012 and 2011, government securities (included in AFS investments) owned by the Bank with total face value of ₱100.00 million are deposited with the BSP in compliance with the requirements of the General Banking Law relative to the Bank's trust functions.

Income from the Bank's trust operations amounted to ₱15.39 million, ₱19.71 million and ₱13.45 million in 2012, 2011 and 2010, respectively.

23. Income on Trading and Investment Securities

Interest income on trading and investment securities follows:

	2012	2011	2010
AFS investments	**₱1,295,804,092**	₱1,258,635,032	₱669,829,161
Financial assets at FVPL	**69,360**	–	90,451
HTM investments	**–**	–	734,939,068
	₱1,295,873,452	₱1,258,635,032	₱1,404,858,680

In 2012, 2011 and 2010, peso-denominated financial assets at FVPL and AFS investments earned annual interest rates ranging from 4.75% to 12.38%, 4.25% to 7.92% and 4.10% to 9.13%, respectively, while dollar-denominated financial assets at FVPL and AFS investments earned annual interest ranging from 5.00% to 9.50%, 3.82% to 8.41% and 4.00% to 9.50%, respectively. HTM investments earned annual interest rates ranging from 7.75% to 12.38% in 2010.

Trading and securities gain - net includes:

	2012	2011	2010
AFS investments	**₱738,069,044**	₱220,166,698	₱500,900,079
Financial assets at FVPL	**7,079,654**	7,409,526	4,258,832
HTM investments	**–**	–	22,977,176
Others	**8,932,793**	8,417,185	3,716,545
	₱754,081,491	₱235,993,409	₱531,852,632

24. Retirement Plan

The Bank has a noncontributory and funded retirement plan covering all its officers and regular employees. The retirement fund is administered by the Bank's Trust Department which acts as the trustee under the plan. Under the retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The latest actuarial valuation study of the retirement plan was made on December 31, 2012.

The Bank'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 retirement liability of the Bank under the plan are shown below:

	2012	2011
Discount rate		
At January 1	**6.40%**	8.90%
At December 31	**5.80%**	6.40%
Expected return on plan assets	**3.00%**	6.00%
Future salary increases	**8.00%**	8.00%

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 net retirement liability of the Bank (included under 'Accrued interest, taxes and other expenses' in the statement of financial position) follows:

	2012	2011
Present value of retirement obligation	**₱502,005,877**	₱497,002,024
Fair value of plan assets	**262,900,213**	293,697,151
Deficit	**239,105,664**	203,304,873
Unrecognized actuarial loss	**(170,228,929)**	(136,968,012)
Net retirement liability (Note 17)	**₱68,876,735**	₱66,336,861

The movements in the present value of retirement obligation of the Bank follow:

	2012	2011
Balance at beginning of year	**₱497,002,024**	₱481,675,716
Benefits paid	**(107,945,356)**	(64,033,426)
Actuarial gain on retirement obligation	**44,489,876**	1,488,296
Current service cost	**36,651,203**	35,002,299
Interest cost	**31,808,130**	42,869,139
Balance at end of year	**₱502,005,877**	₱497,002,024

The movements in the fair value of plan assets of the Bank follow:

	2012	2011
Balance at beginning of year	**₱293,697,151**	₱344,742,994
Benefits paid	**(107,945,356)**	(64,033,426)
Contributions paid	**63,821,454**	–
Expected return	**8,810,915**	20,684,580
Actuarial loss on plan assets	**4,516,049**	(7,696,997)
Balance at end of year	**₱262,900,213**	₱293,697,151

As of December 31, 2012 and 2011, the carrying value of and actual return on the plan assets amounted to ₱262.90 million and ₱13.33 million, and ₱293.70 million and ₱12.99 million, respectively.

The major categories of plan assets as a percentage of the fair value of total plan assets and in absolute amounts follow:

	2012		2011	
	Amount	**%**	Amount	%
Investments in government securities, quoted corporate bonds and other debt instruments	**₱121,458,395**	**46.20**	₱36,773,149	12.52
Cash (Note 28)	**107,938,980**	**41.06**	252,295,458	85.90
Quoted securities	**30,000,000**	**11.41**	–	–
Other assets	**3,502,838**	**1.33**	4,628,544	1.58
	₱262,900,213	**100.00**	₱293,697,151	100.00

As of December 31, 2012 and 2011, the retirement fund plan assets do not include equity instruments issued by the Bank.

The amounts included in 'Compensation and fringe benefits' of the Bank in the statements of income follow:

	2012	2011
Current service cost	**₱36,651,203**	₱35,002,299
Interest cost	**31,808,130**	42,869,139
Actuarial loss	**6,712,910**	6,634,596
Expected return on plan assets	**(8,810,915)**	(20,684,580)
Total retirement expense	**₱66,361,328**	₱63,821,454

The movements in the retirement liability follow:

	2012	2011
Balance at beginning of year	**₱66,336,861**	₱2,515,407
Retirement expense	**66,361,328**	63,821,454
Contributions paid	**(63,821,454)**	–
Balance at end of year	**₱68,876,735**	₱66,336,861

Amounts for the current and previous years follow:

	2012	2011	2010	2009	2008
Present value of retirement obligation	**₱502,005,877**	₱497,002,024	₱481,675,716	₱399,445,875	₱408,266,712
Fair value of plan assets	**262,900,213**	293,697,151	344,742,994	262,170,813	298,657,836
Deficit	**239,105,664**	203,304,873	136,932,722	137,275,062	109,608,876
Experience adjustments on present value of retirement obligation	**(49,507,206)**	(66,152,580)	(20,411,391)	(45,346,375)	(33,233,155)
Experience adjustments on plan assets	**(60,350,930)**	(42,973,708)	(591,650)	(4,421,942)	(55,030,990)

25. Long-term Leases

The Bank leases certain premises occupied by most of its branches (about 68.00% of the branch sites). The lease contracts are for periods ranging from 1 to 20 years and renewable at the Bank's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% - 10.00%.

Rent expense charged to current operations (included in 'Occupancy and other equipment-related costs' in the statements of income) amounted to ₱51.76 million, ₱56.98 million and ₱58.73 million in 2012, 2011 and 2010, respectively.

Future minimum rentals payable under noncancellable operating leases are as follows:

	2012	2011
Within one year	**₱53,826,915**	₱49,702,831
Beyond one year but not more than five years	**95,442,321**	81,384,764
	₱149,269,236	₱131,087,595

The Bank also has entered into commercial property leases on its investment properties. These noncancellable leases have remaining noncancellable lease terms of between one to five years.

Future minimum rentals receivable under noncancellable operating leases follow:

	2012	2011
Within one year	**₱120,778,802**	₱259,460,899
Beyond one year but not more than five years	**452,917,196**	521,331,120
	₱573,695,998	₱780,792,019

26. Miscellaneous Expenses

This account consists of:

	2012	2011	2010
Management and professional fees	**₱105,078,380**	₱88,110,439	₱25,755,503
Insurance	**61,903,435**	59,798,224	59,622,721
Security, clerical, messengerial and janitorial services	**53,353,630**	48,818,169	45,564,134
Communications	**36,944,540**	34,429,235	36,081,656
Entertainment, amusement and recreation (EAR) (Note 27)	**22,866,666**	10,803,627	16,520,648
Transaction dues	**17,693,195**	17,107,173	18,355,267
Litigation and assets acquired	**14,681,486**	18,315,949	2,343,910
Stationery and supplies	**14,244,124**	11,501,961	11,135,365
Brokerage fees	**11,336,027**	9,209,980	13,669,908
Information technology	**9,390,403**	13,943,364	11,579,047
Travel	**8,529,328**	4,226,873	3,731,146
Fines, penalties and other charges	**3,814,021**	598,545	520,789
Advertising	**3,745,149**	2,460,886	1,628,239
Fuel and lubricants	**2,441,930**	2,128,777	2,736,122
Freight	**2,379,570**	1,358,460	1,510,179
Reversal of provision for tax assessments (Note 21)	**–**	(197,871,861)	–
Others	**29,385,492**	35,186,230	91,482,019
	₱397,787,376	₱160,126,031	₱342,236,653

Others include account maintenance charges, waived charges and PDEX transaction fees. In 2010, 'Others' include cost incurred by the Bank from the compromise settlement entered into with a property developer to remove legal impediment on a foreclosed property amounting to ₱26.00 million.

27. Income and Other Taxes

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid, 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, are presented as 'Provision for income tax' in the statement of income.

RA No. 9337, An Act Amending National Internal Revenue Code, provides that starting January 1, 2009, the RCIT rate shall be 30.00% while interest expense allowed as a deductible expense is reduced to 33.00% of interest income subject to final tax.

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as a deduction from taxable income in the next three years from the year of inception.

FCDU offshore income (income from non-residents) 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 OBUs is taxed at 7.50%.

On March 15, 2011, the BIR issued RR No. 4-2011 which prescribes the attribution and allocation of expenses between FCDUs/EFCDUs or Offshore Banking Units (OBUs) and RBU and within RBU. Pursuant to the regulations, the Bank made an allocation of its expenses in calculating income taxes due for RBU and FCDU.

Current tax regulations also set a limit on the amount of EAR expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services. EAR expenses of the Bank (included under 'Miscellaneous expenses' in the statements of income) amounted to ₱22.87 million in 2012, ₱10.80 million in 2011 and ₱16.52 million in 2010 (Note 26).

Provision for income tax consists of:

	2012	2011	2010
Current:			
Final	**₱291,196,704**	₱248,789,433	₱273,993,561
RCIT - FCDU	**309,849**	215,402	284,944
	291,506,553	249,004,835	274,278,505
Deferred	**(1,347,510)**	116,531,495	54,198,614
	₱290,159,043	₱365,536,330	₱328,477,119

Components of 'Deferred tax liabilities - net' are as follows:

	2012	2011
Deferred tax liability on:		
Revaluation increment credited to surplus free (Note 12)	**₱429,365,867**	₱435,996,258
Fair value gain on condominium units for lease	**413,511,222**	402,369,489
Revaluation increment on land (Note 11)	**80,095,204**	74,254,518
Unamortized transaction cost on bills payable	**9,307,279**	15,827,299
Unrealized foreign exchange gain	**5,762,014**	13,143,581
	938,041,586	941,591,145
Deferred tax assets on allowance for credit and impairment losses	**(505,325,176)**	(513,367,910)
	₱432,716,410	₱428,223,235

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income. Management considers projected future taxable income, reversal of temporary differences, and tax planning strategies in making the assessment based on the historical income and projections of future taxable income.

Management believes that portion of the deferred tax assets may not be realized in the future. Accordingly, the Bank did not set up deferred tax assets on the following NOLCO and temporary differences:

	2012	2011
Allowance for credit and impairment losses	**₱993,811,395**	₱977,630,472
NOLCO	**948,293,953**	1,352,878,935
Fair value loss on financial assets acquired at off-market rates	**459,255,628**	529,911,254
Fair value loss on investment properties	**71,065,071**	78,099,128
Retirement liability	**68,876,733**	66,336,861
Unamortized past service cost	**53,355,985**	61,358,097
Provision for year-end expenses	**51,104,510**	19,596,982
Advance rental income	**28,954,628**	35,523,218
	₱2,674,717,903	₱3,121,334,947

Details of the Bank's NOLCO are as follows:

Inception Year	Amount	Expired	Balance	Expiry Year
2009	₱592,038,205	₱592,038,205	₱–	2012
2010	480,841,564	–	480,841,564	2013
2011	279,999,166	–	279,999,166	2014
2012	187,453,223	–	187,453,223	2015
	₱1,540,332,158	₱592,038,205	₱948,293,953	

A reconciliation between the statutory income tax and the effective income tax follows:

	2012	2011	2010
Statutory income tax	**₱377,472,602**	₱348,569,590	₱274,748,622
Tax effect of:			
Nondeductible expenses and others	**241,710,155**	423,774,303	307,809,070
Nontaxable income	**(206,308,648)**	(295,416,760)	(246,853,415)
Interest income subjected to final tax	**(103,971,489)**	(119,961,510)	(126,148,990)
FCDU income before income tax	**(94,908,055)**	(42,318,692)	(87,484,039)
Changes on unrecognized deferred tax assets	**76,164,478**	50,889,399	206,405,871
Effective income tax	**₱290,159,043**	₱365,536,330	₱328,477,119

28. **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. The Bank's related parties include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members, associate and post-employment benefit plan for the benefit of the Bank's employees.

The Bank has several business relationships 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.

Post-retirement Plan
Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has a business relationship with its retirement plan pursuant to which it provides trust and management services to this plan. Any investments made in the retirement plan is approved by the Bank's Retirement Board. Income earned by the Bank from such services amounted to ₱1.46 million in 2012, ₱1.61 million in 2011 and ₱1.44 million in 2010. Total deposits maintained by the related party retirement plan with the Bank amounted to ₱38.36 million and ₱16.35 million in 2012 and 2011, respectively.

Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Senior Management Team to constitute key management personnel for purposes of PAS 24.

Total remunerations of key management personnel are as follows:

	2012	2011	2010
Short-term benefits	**₱64,008,186**	₱57,624,208	₱52,529,664
Post-employment benefits	**5,905,507**	36,282,139	49,284,228
	₱69,913,693	₱93,906,347	₱101,813,892

There were no loans and interest income earned in respect of related parties which are included in the Bank's financial statements in 2012 and 2011. In 2010, interest income from loans earned in respect of related parties amounted to ₱0.65 million. The outstanding balance of the related party loan amounted to ₱7.75 million with an interest rate of 8.00% as of December 31, 2010.

The year-end balances of deposits and interest expense incurred in respect of related parties which are included in the Bank's financial statements follow:

	2012		
Category	**Volume**	**Outstanding Balance**	**Terms and Conditions***
Retirement fund			
Deposit	**₱22,009,856**	**₱38,363,314**	**0.50% to 4.50%**
Interest expense	**404,046**		
Associate			
Deposit	**4,327,206**	**6,231,614**	**0.50% to 1.00%**
Interest expense	**18,155**		
Significant investors			
Deposit	**(22,083,172)**	**66,153,858**	**0.25% to 1.50%**
Interest expense	**271,766**		

*represents savings account interest rate ranges for each related party depositor

Category	2011 Volume	Outstanding Balance	Terms and Conditions*
Retirement fund			
Deposit	(₱99,495,034)	₱16,353,458	0.75% to 4.875%
Interest expense	1,261,069		
Associate			
Deposit	(1,895,621)	1,904,408	0.75% to 1.00%
Interest expense	72,570		
Significant investors			
Deposit	77,824,305	88,237,030	0.75% to 1.75%
Interest expense	259,664		

*represents savings account interest rate ranges for each related party depositor

Category	2010 Volume	Outstanding Balance	Terms and Conditions*
Retirement fund			
Deposit	₱80,316,269	₱115,848,493	0.75% to 4.625%
Interest expense	1,121,774		
Associate			
Deposit	2,117,597	3,800,029	0.75% to 1.00%
Interest expense	91,443		
Significant investors			
Deposit	(624,233)	1,029,725	0.75% to 1.75%
Interest expense	52,633		

*represents savings account interest rate ranges for each related party depositor

Regulatory Reporting

As required by BSP, the Bank discloses loan transactions with its associates, affiliates and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. 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:

	2012	2011
Total outstanding DOSRI loans	**₱19,642,110**	₱22,818,699
Total outstanding DOSRI loans granted under regulations existing prior to Circular No. 423	**19,642,110**	22,818,699
New DOSRI loans granted under Circular No. 423	**–**	–
Total outstanding non-DOSRI loans prior to Circular No. 423	**14,074,724,847**	10,925,439,048
Percent of DOSRI loans to total loans	**0.14%**	0.21%
Percent of unsecured DOSRI loans to total DOSRI loans	**53.47%**	44.45%
Percent of past due DOSRI loans to total DOSRI loans	**0.18%**	2.55%
Percent of nonperforming DOSRI loans to total DOSRI loans	**0.18%**	2.55%

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2012 and 2011, the Bank is in compliance with these requirements.

Any violation of the provisions under BSP Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of BSP Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

29. Financial Performance

Basic and diluted EPS amounts were computed as follows:

		2012	2011	2010
a.	Net income	**₱968,082,966**	₱796,362,304	₱587,351,620
	Less income attributable to preferred shareholders	**673,062,877**	553,673,520	408,358,152
b.	Net income attributable to common	**295,020,089**	242,688,784	178,993,468
c.	Weighted average number of common shares	**52,598,965**	52,598,965	52,598,965
d.	Earnings per share (b/c)	**₱5.61**	₱4.61	₱3.40

Income attributable to preferred shareholders represents such shareholders' pro-rata share in the net income of the Bank.

The following basic ratios measure the financial performance of the Bank:

	2012	2011	2010
Return on average equity (ROE)	**24.22%**	41.84%	(62.28%)
Return on average assets (ROA)	**2.22%**	1.99%	1.54%
Net interest margin on average earning assets	**4.37%**	3.92%	4.72%

30. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and SPURA considered as cash and cash equivalents as of December 31, 2012, 2011 and 2010 follow:

	2012	2011	2010
Interbank loans receivables and SPURA shown under statements of cashflows	**₱952,554,800**	₱2,786,242,240	₱1,105,442,177
Interbank loans receivables and SPURA not considered as cash and cash equivalents	**41,249,410**	43,840,000	43,840,000
	₱993,804,210	₱2,830,082,240	₱1,149,282,177

The following is a summary of noncash activities:

	2012	2011	2010
Noncash operating activities:			
Additions to loans and receivable from disposal of investment properties (Note 12)	**₱10,593,720**	₱75,221,142	₱30,530,760
Rescission of sales contract receivables	**–**	4,814,282	–
Noncash investing activities:			
Increase (decrease) in land due to revaluation	**19,468,950**	(27,502,000)	113,681,156
Reclassification from to HTM investments to AFS investments (Note 8)	**–**	–	7,787,676,931
Fair value gain on securities reclassified from HTM to AFS investments	**–**	–	1,788,332,814
Changes in net unrealized gain (loss) on AFS investments	**(1,050,374,127)**	42,657,066	1,942,806,402
Additions to investment properties in settlement of loans (Note 12)	**–**	4,814,282	24,271,940
Transfer from (to) property and equipment to (from) investment properties (Notes 11 and 12)	**(252,519,890)**	–	5,822,559

31. Approval for Release of the Financial Statements

The accompanying comparative financial statements were authorized for issue by the BOD of the Bank on February 27, 2013.

32. Supplementary Information Under Revenue Regulations 19-2011

In its 2012 filing for income tax return, the Bank disclosed the following information on taxable income and deductions using the revised format as required under RR 19-2011:

Sales/Receipts/Fees	₱1,230,222,457
Cost of Sales/Services	(789,864,155)
Non-Operating and Taxable Other Income	1,704,439
Itemized Deductions	(629,515,964)
	(₱187,453,223)

The details of the Sales/Receipts/Fees

Interest income	₱586,632,496
Rental income	332,806,346
Service charges, fees, and commissions	151,987,968
Profit (loss) from assets sold or exchanged	126,447,693
Income from trust operations	15,386,124
Trading and securities gain	2,188,299
Miscellaneous income	14,773,531
	₱1,230,222,457

The details of Cost of Sales follow:

Salaries and wages	₱450,788,279
Interest expense	292,150,360
Insurance	37,559,223
Banking fees	9,366,293
	₱789,864,155

The following composed the Non-operating and Taxable Other Income:

Rental income	₱1,386,863
Trading and securities gain	317,576
Miscellaneous	–
	₱1,704,439

The following composed the itemized deductions:

Taxes and licenses	₱279,589,073
Depreciation and amortization	99,640,195
Management and professional fees	62,134,855
Rent, light and water	56,441,560
Communications	23,754,588
Entertainment, amusement and recreation	12,319,269
Stationary and supplies	9,217,663
Litigations and assets acquired	9,216,425
Advertising	2,450,734
Other	74,751,602
	₱629,515,964

33. **Supplementary Information Under Revenue Regulations 15-2010**

In compliance with the requirements set forth by RR 15-2010 hereunder are the details of percentage and other taxes paid or accrued by the Bank in 2012.

Gross receipts tax	₱206,396,413
Documentary stamp tax	86,809,600
Local taxes	28,618,185
Fringe benefit tax	1,538,590
Others	269,752
	₱323,632,540

Withholding Taxes

Details of total remittances in 2012 and outstanding balance of withholding taxes as of December 31, 2012 follow:

	Total Remittances	Balance as of December 31
Final withholding taxes on deposit substitute borrowings	₱153,491,308	₱12,206,567
Withholding taxes on compensation and benefits	108,257,637	10,014,505
Expanded withholding taxes	29,123,194	2,530,540
	₱290,872,139	₱24,751,612