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 20-IS
DEFINITIVE INFORMATION STATEMENT

(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	

Philippine Bank of Communications

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b)
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [ ] Preliminary Information Statement
   [**X**] Definitive Information Statement

2. Name of Registrant as specified in its charter PHILIPPINE BANK OF COMMUNICATIONS

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

4. SEC Identification Number PW-686

5. BIR Tax Identification Code 000-263-340-000

6. PBCom Tower, 6795 Ayala Ave. cor. V.A. Rufino St., Makati City — 1226
   Address of principal office — Postal Code

7. Registrant's telephone number, including area code (632) 830-7000

8. Date, time and place of the meeting of security holders

   Date : 28 March 2012
   Time : 3:00 p.m.
   Place : 6th Floor, Alphaland Southgate Tower (The Tents)
   2258 Chino Roces Ave corner EDSA, Makati City

9. Approximate date on which the Information Statement is first to be sent or given to security holders 7 March 2012

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
PBCOM Common Shares	52,598,965 shares
PBCOM Preferred Shares	120,000,000 shares

11. Are any or all of registrant's securities listed on a Stock Exchange?

    Yes x No ______

    If yes, disclose the name of such Stock Exchange and the class of securities listed therein:
    PHILIPPINE STOCK EXCHANGE — COMMON STOCK

    PHILIPPINE STOCK EXCHANGE — PREFERRED STOCK

INFORMATION REQUIRED IN INFORMATION STATEMENT

Date, time and place of meeting of security holders.

Date of meeting	:	28 March 2012
Time	:	3:00 p.m.
Place	:	6th Floor, Alphaland Southgate Tower (The Tents) 2258 Chino Roces Ave corner EDSA, Makati City 50th Floor, PBCom Tower

Mailing address : PBCom Tower, 6795 Ayala Avenue cor. V.A. Rufino St., Makati City

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

Approximate date on which Information Statement is first sent to Security Holders: 7 March 2012

Dissenters' Right of Appraisal

In accordance with Title X of the Corporation Code, any stockholder of the Philippine Bank of Communications ("PBCom" or the "Bank" or the "Company" or the "Corporation") has the right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and

3. In case of merger or consolidation

The procedure for the exercise of such appraisal right by the stockholder is as follows:

1. The stockholder voted against the proposed corporate action.

2. The dissenting stockholder shall make a written demand on the corporation within thirty (30) days after the date on which the vote was taken for payment of the fair market of his shares. The failure of the stockholder to make the demand within such period shall be deemed a waiver of the appraisal right.

3. If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock within ten (10) days after demanding payment for his shares (Sec. 86), the fair value thereof; and

4. Upon payment of the agreed or awarded price, the stockholder shall transfer his shares to the corporation.

To date, there are no corporate matters or actions that will entitle dissenting stockholders to exercise their right of appraisal as provided in Title X of the Corporation Code.

Interest of Certain Persons in or Opposition to Matters to be Acted Upon

(a) No current director or officer of the Bank, or nominee for election as director of the Corporation nor any associate thereof, has any substantial interest, direct or indirect by security holdings or otherwise, in any matter to be acted upon other than election to office and as potential grantees of the Stock Option Plan.

(b) No director has informed the Corporation in writing that he intends to oppose to any action to be taken by the registrant at the meeting.

Voting Securities and Principal Holders

(a) The number of shares entitled to vote at the Annual Stockholders' Meeting total 52,598,965 outstanding common shares and 120,000,000 outstanding preferred shares as of 8 February 2012, each of which is entitled to one vote.

(b) Pursuant to the Resolution of the Board of Directors at a meeting held on 18 January 2012, the Board fixed 8 February 2012 as the record date for purposes of determining the stockholders entitled to notice and to vote at the Annual Stockholders' Meeting of the Bank.

(c) Pursuant to Article II, Section 2 of the Bank's By-laws, a stockholder may vote during the Annual Stockholders' Meeting in person or by proxy.

In accordance with Section 24 of the Corporation Code, a stockholder may vote for the directors of the Bank in any of the following manner:

1. He may vote such number of shares for as many persons as there are directors to be elected. He may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by his shares; or

2. He may distribute them on the same principle among as many candidates as he shall see fit.

3. In any of the foregoing instances, the total number of votes cast by the shareholder should not exceed the number of shares owned by him as shown in the books of the Bank multiplied by the number of directors to be elected.

(1) Security Ownership of Certain Record and Beneficial Owners of more than 5% as of 8 February 2012

Title of Class	Name, address of record owner and relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of shares Held	Percent
Common	ISM Communications Corporation c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City Principal shareholder of the Issuer	ISM Communications Corporation c/o 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 c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City	ISM Communications Corporation c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City	Filipino	45,773,540 (R) 63,233,759 (R)	36.64%

	Principal shareholder of the Issuer	**Roberto V. Ongpin/Eric O. Recto*			
Common Preferred	Roberto V. Ongpin c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City 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 Compact Holdings, Inc. c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City	Filipino Filipino	12,263,593 (R) 30,716,891 (R) 42,980,484 (R)	24.90%
Common Preferred	Eric O. Recto c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City Eric O. Recto c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City	Eric O. Recto c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City Eric O. Recto c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City	Filipino Filipino	8,416,917 (R) 21,082,026 (R) 29,498,943 (R)	17.09%
Common 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	Langford Universal Finance Ltd. c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City **Patrick Sugito Walujo* Langford Universal Finance Ltd. c/o Alphaland Southgate Tower 2258 Chino Roces Ave. cor. EDSA, Makati City **Patrick Sugito Walujo*	BVI BVI	4,355,254 (R) 10,908,710 (R) 15,263,964 (R)	8.84%

** will be given the proxy to vote the shareholders' shares during the meeting.*

(2) Security Ownership of Management as of 8 February 2012

Title of Class	Name of Beneficial Owner	Citizenship	Amount and Nature of Beneficial Ownership	Percentage of Ownership
Common Preferred	Roberto V. Ongpin	Filipino	12,263,593 (R) 30,716,891 (R) 42,980,484 (R)	24.90%
Common Preferred	Eric O. Recto	Filipino	8,416,917(R) 21,082,026 (R) 29,498,943 (R)	17.09%
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	Edgar J. Sia II	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	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	21,194,415 (R) 53,078,787 (R) 74,273,212 (R)	43.03%

(3) Voting Trust Holders of 5% or more – There is none.

(4) 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.

Directors and Executive Officers

NAME	OFFICE	AGE	CITIZENSHIP	YEAR OF ASSUMPTION OF OFFICE
Roberto V. Ongpin	Chairman of the Board/Director	75	Filipino	2011
Eric O. Recto	Co-Chairman / Director	48	Filipino	2011
Mario J. Locsin	Vice Chairman / Director	60	Filipino	2011
Henry Y. Uy	President & CEO/Director	63	Filipino	2011/1986
Gregorio T. Yu	Director	53	Filipino	2011
Edgar J. Sia II	Director	35	Filipino	2011
Patrick Sugito Walujo	Director	36	Filipino	2011
Ralph C. Nubla, Jr.	Director	60	Filipino	1976
Carlos G. Chung	Director	63	Filipino	1997
Roberto M. Macasaet, Jr.	Director	53	Filipino	2010
Raul O. Serrano	Director	72	Filipino	2010
Imelda S. Singzon	Director	61	Filipino	2010
Teresita Ang See	Director	64	Filipino	2010
Angel M. Corpus	Executive Vice President/Treasurer	62	Filipino	2001
Felimon F. Baltazar	Senior Vice President	64	Filipino	2001
Alex Luis M. Pesigan	Senior Vice President	53	Filipino	2012
Rodolfo Ma. A. Ponferrada	Corporate Secretary	35	Filipino	2011

BOARD OF DIRECTORS (As of 8 February 2012)

ROBERTO V. ONGPIN, Director
Currently, he is the Chairman of the Board of the Bank. He earned his Bachelor of Science in Business Administration (cum laude) from the Ateneo de Manila University in 1957, and became a certified public accountant in 1958. He earned his Master in Business Administration from Harvard University in 1961. He worked at SyCip Gorres Velayo & Co. from 1964 to 1979. He became Managing Partner before he was 30 years old, and was instrumental in building it into Asia's top accounting and management services firm. He served as Minister of Trade and Industry of the Republic of the Philippines from 1979 to 1986. As Minister, he held concurrent positions for a number of years as Chairman of the National Development Company (and various positions in its subsidiaries and affiliates), as Chairman and CEO of the International Corporate Bank, as a member of the Monetary Board (the governing body of the Central Bank of the Philippines) and as a member of the Board of Governors of the Development Bank of the Philippines. After leaving government in 1986, Mr. Ongpin formed AIA Capital Ltd, a Hong Kong-based investment banking company, with the backing of AIG. He arranged the entry of the Kuok Group (Shangri-la Group) into the Philippines. In the 1990's, he also conceptualized, organized, managed and financed the

development of the single largest and most successful upscale leisure resort community in the Philippines to date – Tagaytay Highlands. At present, Mr. Ongpin is involved in the following companies listed in the Philippine Stock Exchange: Philweb Corporation (Chairman and CEO), ISM Communications Corporation (Chairman and CEO), Alphaland Corporation (Chairman and CEO), Atok-Big Wedge Co., Inc. (Chairman and CEO), San Miguel Corporation (Director), Ginebra San Miguel, Inc. (Director), and Petron Corporation (Director). He is also involved in the following companies listed in foreign exchanges: Shangri-la Asia Ltd (Director) – listed in the Hong Kong Stock Exchange, South China Morning Post (Deputy Chairman) – listed in the Hong Kong Stock Exchange, Forum Energy plc (Non-Executive Director) – listed in the London Stock Exchange. He is likewise the Chairman of Acentic GmbH (based in Germany) and Acentic Limited (based in the United Kingdom).

ERIC O. RECTO, Director
Currently, he is the Co-Chairman of the Bank. He is a product of the University of the Philippines having finished his elementary (1976), secondary (1980) and tertiary (1985) education at the state university where he obtained a Bachelor of Science in Industrial Engineering. In 1989, he obtained his Masters in Business Administration (concentration in Finance and Operations Management) from Cornell University (Johnson Graduate School of Management). In 1989, he started his professional career at SyCip Gorres Velayo & Co. as a Senior Consultant - Project Development of the Services Division. He then moved to Bankers Trust Company where he served as Vice President, Corporate Finance (Manila, from 1990 up to 1993) and Vice President, Asset Finance Group (Hong Kong, from 1993 to 1994). From 1994 up to 2000, he served as Senior Vice President and Chief Financial Officer of Belle Corporation. He likewise served in various capacities (VP, CFO and/or Director) of Belle's various subsidiaries and affiliates including Sinophil Corporation, APC Group, Inc., Philippine Global Communications, Inc., Tagaytay Highlands International Golf Club, Inc., Legend International Resorts, Maginet Corporation and Philcom, Inc. From 2000 up to 2002, he served as Senior Vice President and Chief Financial Officer of Alaska Milk Corporation. Then, Mr. Recto joined government service from 2002 up to 2005 as a member of the Central Bank Board of Liquidators and as Undersecretary of the Department of Finance. Among his tasks as Undersecretary was the supervision over the Philippine Deposit Insurance Corporation and its activities. From 2005 to 2010, he served as Independent Director of Philippine National Bank (and for a time was Chairman of its Executive Committee). He also served in various capacities (Chairman or Director) of the bank's subsidiaries including PNB Securities, Inc., PNB RCI Holdings Co., Inc., PNB International Finance Ltd. and PNB Holdings Corporation. He was also involved in the following companies: Philex Mining Corporation (as well as its subsidiary, Philex Petroleum Corporation, and affiliate, PetroEnergy Resources Corporation) – Director, Metro Pacific Investment Corporation – Independent Director, PNOC Energy Development Corporation – Independent Director, Maynilad Water Services, Inc. – Director, Bulawan Mining Corporation – Director, Connectivity Unlimited Resource Enterprise, Inc. – President and CEO, Eastern Telecommunications Philippines, Inc. (and its subsidiary Telecommunications Technologies Philippines, Inc.) – President and CEO. At present, he is involved in the following companies: Petron Corporation – President, ISM Communications Corporation – President, Philweb Corporation – Vice Chairman, Alphaland Corporation – Vice Chairman, Atok-Big Wedge Co., Inc. – Vice Chairman, Manila Electric Company – Director, San Miguel Corporation – Director, Top Frontier Investment Holdings, Inc. – President, Q-Tech Alliance Holdings, Inc. – President, and Acentic GmbH (and its subsidiary, Acentic Limited) – Member, Board of Supervisors.

MARIO J. LOCSIN, **Director**
Currently, he is the Vice Chairman of the Bank. He earned his LIA Honors Math from the De La Salle University in 1973, and Masters in Business Administration from University of San Francisco in 1980. He is President of Atok-Big Wedge Company, Inc. and Alphaland Heavy Equipment Corporation. He is also a Director of Alphaland Corporation and Philweb Corporation. He is likewise Executive Vice President and a Director of ISM Communications Corporation. He was also a Director and Officer of PLDT, Philippine Airlines, Philippine Global Communications Corporation, Associated Broadcasting Company (ABC TV5) Belle Corporation and Eastern Telecommunications Philippines, Inc..

HENRY Y. UY, Director
Currently, he is President and CEO (since 2010) and Director (since 1986) of the Bank. He has been with the Bank since 1970. He is also the Chairman of PBCom Finance Corporation since 2008 and Vice President of Echague Realty Corporation since 1992. He was President of the Bank from 1999 to 2001, and Executive Director in 2004. He has more than 40 years of experience in banking. He graduated with a degree in Bachelor of Science in Business Administration (Magna Cum Laude) and MBA from De La Salle University in 1970 and 1975, respectively.

GREGORIO T. YU, Director
Currently, he is Chairman of the Executive Committee of the Board of Directors of the Bank. He obtained his Bachelor of Arts (Honors Program) in Economics (summa cum laude) in 1978 from the De La Salle University and his Master of Business Administration from the University of Pennsylvania (The Wharton School) in 1983. He started his career in 1978 as Assistant Vice President of R.S. Lim and Company, Inc. He then took his MBA in 1981. After completing his MBA, he was hired by The Chase Manhattan Bank, N.A. (first as Second Vice President in the Manila Offshore Banking Unit from 1983 to 1986, then as Vice President for Asia Credit in the Asia Pacific Regional Headquarters from 1986 to 1988 and then as Director for Corporate Finance of Chase Manhattan Asia Limited in Hong Kong from 1988 to 1989). he was part of the group that developed the single largest and most successful upscale leisure resort community in the Philippines to date – Tagaytay Highlands. He served as the President of Tagaytay Highlands International Golf Club from 1991 to 2001, of The Country Club at Tagaytay Highlands from 1995 to 2001 and of Tagaytay Midlands Golf Club from 1997 to 2001. He also served as an officer of the following companies: Belle Corporation (President and CEO, 1989 to 2001), Cebu Holdings Inc. (Director, 1994 to 1996), Pacific Online Systems Corporation (President and CEO, 1994 to 2001), Sinophil Corporation (President and CEO, 1993 to 2001), APC Group, Inc. (Vice Chairman, 1994 to 2001), Philippine Global Communications, Inc. (Vice Chairman, 1996 to 2001), Vantage Corporation (Director, 1993 to 2006), R.S. Lim & Co., Inc. (Director, 1997 to 2008), and Nexus Technologies, Inc. (Director, 2001 to 2010). He returned to banking in 1995 when he became a director of The International Exchange Bank (as well as a member of its Executive and Audit Committees) until 2006. Currently, Mr. Yu is involved in the following: CATS Motors, Inc. (Chairman, since 2004), Sterling Bank of Asia (Vice Chairman and ExCom Chairman, since 2006), Government Service Insurance System (Trustee, since 2010), Philippine National Reinsurance Corporation (Board Member, since 2010), iRemit, Inc. (Director, from 2001 to 2005 and then since 2007), Phil equity Fund, Inc. (Director, since 1994), Prople BPO Inc. (Director, since 2006), CMB Partners, Inc. (Director and Treasurer, since 2003), and Jupiter Systems, Inc. (Director, since 2001).

PATRICK SUGITO WALUJO, Director
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 from Cornell University and is Ernst & Young Indonesia's 2009 Young Entrepreneur of the Year.

EDGAR J. SIA II, Director
He was born on January 1977. He is the man behind the success of the Mang Inasal food chain. He was awarded the Small Business Entrepreneur award for 2010 by the Ernst & Young Entrepreneur of the Year (Philippines) for best demonstrating management excellence in a business with assets less than Php100 million. At present, he is involved in the following companies: Injap Investments, Inc. (Chairman/CEO), Mang Inasal Philippines, Inc. (Vice Chairman, Founder), Injap Land Corp. (Chairman/CEO), People's Hotel Corp. (Chairman/CEO).

CARLOS G. CHUNG, Director
He is Director of the Bank since 1997. He is the President of Supima Holdings, Inc., and Director of La Suerte Cigar & Cigarette Factory, Century Container Corporation, Bicutan Container Corporation, Tosen Foods Corporation, 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. He is one of the Incorporators of ICA Scholarship Foundation and Chairman of Ways & Means Committee. He was an Executive Director of the Bank in 2004. He was Director of Hambretch & Quist Phils., Textile Mills Association and Federation of Phil. Industries. He obtained his A.B. (Economics) B.S.B.A. from De la Salle University in 1972 and holds an M.B.A. major in Finance from University of Southern California in 1974.

RALPH C. NUBLA, JR., Director
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 in 1972 with Bachelor of Science degree in Commerce.

IMELDA S. SINGZON, Independent Director
Currently, she is the Executive Vice President of Philippine Deposit Insurance Corporation. She was a former First Senior Vice President of PNB, the Vice President of New York-based First Philippine Fund, a Member of the Board of Directors of various government corporations such as National Food Authority, Livelihood Corporation, Fertilizer and Pesticides Authority and some PNB subsidiaries. She graduated with a degree of BS Statistics a Certificate-Development Economics (with distinction) and MA-Demography (candidate) from the University of the Philippines in 1972, 1975 and 1975, respectively.

TERESITA A. SEE, Independent Director
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 and M.A. in Asian Studies (candidate) from the University of the Philippines in 1971 and 1975, respectively.

ROBERTO M. MACASAET, JR., Independent Director
He is Director of the Bank since 2010. He is the President & CEO of Associated Medical & Clinical Services Inc. since 2006. He is also Director of Maxicare Healthcare Corporation since 2010 and Coconut Industry Investment Fund (CIIF) since 2011. He was the Vice President of Citadel's Holdings Inc. from 2001 to 2005 and held various positions in senior management with Fil Hispano Holdings Corporation (formerly Fil Hispano Ceramics Inc.) from 1992 to 2001. He graduated with a degree of Bachelor of Arts from Tufts University in. 1981 and obtained a Master of Business degree from Northern University in 1987.

RAUL O. SERRANO, Independent Director
He was a member of the Board of Trustees of the Government Service Insurance System in 2005. He held various managerial positions in Solidbank Corporation and Allied Banking Corporation until retirement. He is an active member and Past President of the Rotary Club of Diliman District 3780. He holds various positions in the District. Also, a Past President of UP Village Homeowners' Association. He is a civic and religious leader in the community. He graduated from Ateneo de Naga University with a degree of B.S.C. Finance in 1960.

RODOLFO MA. A. PONFERRADA, Corporate Secretary
Currently, he is also Senior Vice President of Philweb Corporation. He is also the Corporate Secretary of Alphaland Corporation, The City Club at Alphaland Makati Place, Inc., Alphaland Balesin Island Club, Inc., Atok-Big Wedge Co., 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.

Executive Officers

Angel M. Corpus, Executive Vice President, Head of Treasury Segment and Treasurer of PBCom since 2001. His professional banking career spans 37 years with various financial institutions. He started with Bancom Development Corporation (1973-75) as a Senior Financial Analyst, and joined then Central Bank of the Philippines (1977-84) as Bank Executive Assistant II and through the years ultimately became Director, Head of Treasury. He later worked for Security Bank (1984-85) as Vice President of the International Treasury Department. After a stint in the US, he joined Land Bank of the Philippines (1988-1991) as Vice President of its Treasury Group. Later, he worked for Union Bank of the Philippines (1992-94) as Senior Vice President of its Funds Management Group. He thereafter joined Philippine Banking Corporation (1994-2000) – 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 Masters in Business Administration in Asian Institute of Management.

Felimon F. Baltazar, Senior Vice President. He has 29 years of banking experience with different banks most of which were in the field of Treasury. He held the position of Deputy Chief Operating Officer at the former Associated Bank. He also had a brief 7-month stint at PDIC in 2000 when he acted as Treasury Consultant for the former Urban Bank. He joined the Bank in 2001 to manage the local currency desk and securities dealership functions of the Bank as Head Domestic Treasury Division. He graduated from San Sebastian College with a degree of Bachelor of Science in Business Administration in 1972.

Alex Luis M. Pesigan, Senior Vice President and Head of Retail Banking of the Bank. He has extensive career in banking gained from his employment in various institutions, such as: the former Citytrust Banking Corporation, former International Exchange Bank, Union Bank and at present, Export & Industry Bank. He graduated from the University of the Philippines and has a degree in Bachelor of Science in Statistics. He is an MBA candidate at De La Salle and a former Theology student at Maryhill School of Theology.

Nominees for this year's Election of Directors

The following were nominated for election to the Board of Directors at this year's Annual Stockholders' Meeting:

For Regular Directors:

ROBERTO V. ONGPIN (incumbent)

ERIC O. RECTO (incumbent)

MARIO J. LOCSIN (incumbent)

HENRY Y. UY (incumbent)

GREGORIO T. YU (incumbent)

PATRICK SUGITO WALUJO (incumbent)

EDGAR J. SIA II (incumbent)

CARLOS G. CHUNG (incumbent)

RALPH C. NUBLA, JR. (incumbent)

For Independent Directors:

IMELDA S. SINGZON (incumbent)

TERESITA A. SEE (incumbent)

ROBERTO M. MACASAET, JR. (incumbent)

RAUL O. SERRANO (incumbent)

JOSE P. LEVISTE, JR., Independent Director
Currently, he is 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's Chairman & CEO of Students Free Enterprise (SIFE) and Mirant Philippines. He is Director of Pico de Loro Beanch & Country Club. He is appointed Member of the Governing Council of the Philippine Council for Agriculture, Forestry, and Natural Resources Research & Development of the Department of Science & Technology 2011. He graduated from Ateneo De Manila University (with honors) in 1965 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; Master in Business Administration from Columbia University, New York, New York in 1968; and Doctor of Humanities from Nueva Vizcaya State University (Honoris Causa) in 2007.

TOMAS I. ALCANTARA, Independent Director
Currently, he is Chairman and President of Alsons Consolidated Resources, Inc., Alto Power Management Corp., Alsons Development and Investment Corporation, Lima Land, Inc., and Sarangani Agricultural Co., Inc., among others. He is also an Independent Director of Philweb Corporation and a Director of Holcim Philippines and DBP-Daiwa Securities Corp. 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 and 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 the Asia-Pacific Economic Cooperation (APEC).

The above nominees were nominated by the following stockholders:

	Nominee	Nominating Shareholder
1.	Roberto V. Ongpin	ISM Communications Corporation
2.	Eric O. Recto	ISM Communications Corporation

3.	Mario J. Locsin	ISM Communications Corporation
4.	Gregorio T. Yu	ISM Communications Corporation
5.	Patrick Sugito Walujo	ISM Communications Corporation
6.	Edgar J. Sia, II	ISM Communications Corporation
7.	Ralph C. Nubla, Jr.	ISM Communications Corporation
8.	Henry Y. Uy	ISM Communications Corporation
9.	Carlos G. Chung	ISM Communications Corporation
10.	Raul O. Serrano	ISM Communications Corporation
11.	Roberto M. Macasaet, Jr.	ISM Communications Corporation
12.	Imelda S. Singzon	ISM Communications Corporation
13.	Teresita Ang See	ISM Communications Corporation
14.	Tomas I. Alcantara	ISM Communications Corporation
15.	Jose P. Leviste, Jr.	ISM Communications Corporation

Ms. Singzon, Ms. See, Mr. Macasaet and Mr. Serrano, as nominees for Independent Director, were nominated by a stockholder coming from the group of Major Stockholders (ISM Communications Corporation) in accordance with Section 5.5.1 of the Financial Assistance Agreement (FAA) dated 15 March 2004 executed by the Bank with Philippine Deposit Insurance Corporation (PDIC).

Mr. Leviste and Mr. Alcantara were likewise nominated by ISM Communications Corporation as additional Independent Directors of the Bank.

All the aforementioned candidates were presented to the Nominations Committee at a meeting held on 21 February 2012 (for Regular Directors and Independent Directors) Director Raul O. Serrano, Chairman of the Nomination Committee following the provisions of SEC Rule 38.

The nominees for Independent Director have all the qualifications and none of the disqualifications of an Independent Director.

The Nominations Committee is composed of the following regular members:

1. Raul O. Serrano
2. Eric O. Recto
3. Ralph C. Nubla, Jr.
4. Teresita Ang See

Atty. Rainelda Rodriguez-Lastimosa, Secretary

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.

Rules on Nomination and Election of Directors & Independent Directors and Manner of Voting

In compliance with SEC SRC Rule 38, and as a matter of practice, the Bank has adopted the following rules in the nomination and election of directors.

SEC. 1. Period. All nominations for directors and independent directors shall be submitted to the Nominations Committee through any of the members of the Committee or the Corporate Secretary at any time before the submission of the Definitive Information Statement to the Securities and Exchange Commission, allowing the Nominations Committee sufficient time to pass upon the qualifications of the nominees.

SEC. 2. Form and Contents. All nominations shall be in writing duly signed by a stockholder and accepted and conformed to by the nominees likewise in writing indicating whether a particular nominee/s is/are intended to be an independent director or not. It must contain the nominee's age, educational attainment, work and/or business experience and/or affiliation.

SEC. 3. Qualifications. No individual shall be nominated as director or independent director unless he meets the minimum requirements/qualifications prescribed by the regulatory agencies/offices concerned of listed banks.

SEC. 4. List of Candidates. The Nominations Committee shall pre-screen the qualifications of the nominees and prepare a final list of candidates, including a summary of all relevant information about them.

Family Relationships

Mr. Roberto V. Ongpin, Chairman of the Board, is the uncle of Mr. Eric O. Recto, Co-Chairman.

Mr. Ralph Nubla, Jr., a Director, is the brother-in-law of Mr. Henry Y. Uy, the President & CEO.

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.

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.

PBCOM Finance Corporation is the only remaining associate of the Bank as of February 28, 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

Involvement in Legal Proceedings

On 5 August 2011, the Development Bank of the Philippines (DBP) filed a case against Director Roberto V. Ongpin (RVO) and twenty-seven 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 RVO had with DBP in 2009. The matter is still pending.

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) in connection with Section 23.2 of the Securities Regulation Code. The matter is also pending.

In any event, the counsel of Mr. Ongpin has advised him that the first case "will not prosper" and the second case "is baseless and will be eventually dismissed for lack of merit and/or for being a mere harassment suit."

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.

Compensation of Directors and Executive Officers

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 2009 to 2011 of the Bank's Chief Executive Officer and four other most highly compensated executive officers are as follows:

	2011	2010	2009
CEO and four most highly compensated Executive officers	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	Roman Anthony V. Azanza Jr. 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	P18,847,076.16	P13,774,373.70	P18,764,381.00
Bonus	4,309,060.00	3,383,047.50	5,595,705.50
Other Annual Compensation			
TOTALS	**P23,156,136.16**	**P17,157,421.20**	**P24,360,086.50**
All officers and directors as Group Unnamed			
Salary	P219,084,487.10	P210,793,216.48	P204,400,378.77
Bonus	52,173,815.36	52,941,678.15	55,178,461.55
Other Annual Compensation			
TOTALS	**P271,258,302.46**	**P263,734,894.63**	**P259,578,840.32**

The following is the estimated annual compensation for year 2012:

	Salary	Bonus	Other Annual Compensation	Total
Total of CEO and Four most highly compensated Executive Officers	P 20,671,758.60	P 4,010,687.52	none	P 24,682,446.12
All officers as a group unnamed	P237,755,092.92	P 72,024,458.92	none	P309,779,551.84

The Directors are entitled to a Directors' fee for attending Board meetings. As stipulated in the By-laws, Directors are also entitled to a 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 February 28, 2012.

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

Independent Public Accountants

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. 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 SEC Memorandum Circular No. 8, Series of 2003. Ms. Vicky B. Lee-Salas was assigned in 2009 as SGV’s partner-in-charge for the Bank.

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
2011	2,848,204	-0-
2010	2,858,240	-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, Edgar J. Sia II, and Teresita Ang See as Members.

Action with Respect to Reports

Reports of Directors, Officers, Committees or Any Minutes of the Meeting

The 15 October 2010 Annual Stockholders’ meeting considered/ratified all business transacted by the Bank during the years ending 31 December 2007, 2008, and 2009 of the Management and the Board of Directors. The Annual Report or President’s report was also presented. The members of the Board of Directors were duly elected while SGV & Co. was duly appointed as the Bank’s external auditor.

The following will be submitted for approval at the Annual Stockholders’ Meeting of the Bank on 28 March 2012:

1. Ratification of All Acts and Proceedings of the Board of Directors and Management
2. Report of the Results of Operations for the Years 2011 and 2010 and Approval thereof

3. Ratification of the Amendment of Article VII of the Articles of Incorporation re: Quasi-Reorganization and Increase in Authorized Capital Stock
4. Ratification of the Amendment of By-Laws re: Creation of the Office of Internal Auditor
5. Adoption of a Stock Option Plan
6. Election of the Members of the Board of Directors
7. Appointment of External Auditor

Other Proposed Action:

The minutes of the meeting of the last meeting of shareholders will also be submitted for approval.

Summary of the Minutes of 15 October 2010 Stockholders' Meeting

The meeting was attended by stockholders in person and by proxy representing 97.5% or more than 2/3 of the outstanding voting stock of 172,598,965 common shares and preferred shares of the Corporation.

The following were duly approved by the stockholders present in said meeting:

1. Minutes of the previous meetings of the stockholders held on 19 June 2007
2. Annual Report and the Audited Financial Statements for the years ending 31 December 2007, 2008 and 2009
3. All business transacted by the Bank during the year ending 31 December 2007 as disclosed in the minutes of the meetings of the Management and the Board of Directors and up to the date of this meeting were duly approved
4. Election of the members of the incoming Board of Directors
5. Appointment of External Auditors

Amendments of Charter, By-Laws & Other Documents

The following are to be submitted for approval of the shareholders:

1. Ratification of the Amendment of Article VII of the Articles of Incorporation re: Quasi-Reorganization and Increase in Authorized Capital Stock

   During the meeting of the Board of Directors on 18 January 2012, the Board of Directors approved the simplification of the Bank's shareholder structure so that there will only be one class of shares of stock (in lieu of the existing common shares and preferred shares). Considering the planned re-subscription of the Chung and Nubla groups of around Php2.8 billion, the Board of Directors likewise approved the increase in the Bank's authorized capital stock.

   Thus, the Board of Directors approved the amendment of Article VII of the Articles of Incorporation which will now read as follows:

   > "SEVENTH – That the amount of capital stock of the Corporation is PESOS: TWENTY SEVEN BILLION, Philippine Currency (P27,000,000,000.00), divided into ONE BILLION EIGHTY MILLION (1,080,000,000) Common Shares with a par value of TWENTY FIVE PESOS (P25.00) per share."

2. Ratification of the Amendment of By-Laws re: Creation of the Office of Internal Auditor

   During the meeting of the Board of Directors on 27 October 2011, the Board of Directors approved the creation of the office of an Internal Auditor in compliance with regulatory requirements.

Thus, the Board of Directors approved the amendment of the By-Laws where the following provision will be added:

THE INTERNAL AUDITOR – The internal auditor shall have full, free and unrestricted access to all company activities, records, property and personnel. He shall report directly to the Board of Directors. His duties and responsibilities shall include the following:

a. Performs continuous program of verification and conduct his examination in such a way as to ensure management of the general reliability and validity of all reports;
b. Recommends the establishment of appropriate internal controls;
c. Supervises and maintains the bank's system of internal control and ascertains that it is adequate and functioning properly;
d. Recommends appropriate measures to ensure that the established policies, procedures and controls are followed;
e. Perform such other functions as may be assigned by the Board of Directors in connection with examination, evaluation and appraisal of the bank's operations.

The internal auditor's functions are staff and advisory. He has no authority or responsibility over the activities he audits, and his main purpose is to assist the members of the organization in the effective discharge of their responsibilities."

3. Adoption of a Stock Option Plan

During the meeting of the Board of Directors on 22 February 2012, it was discussed that there is a need to adopt a Stock Option Plan for directors, officers and employees subject to regulatory approvals. Such plan is in line with the Bank's desire to be at par with its competitors in terms of providing incentives. And like any stock option plan, it will also augment the Bank's capital build-up program.

To be submitted for approval will be the enclosed Stock Option Plan.

Voting Procedures

A) Vote requirement:

1. For ratification of All the Acts of the Board of Directors and Management.
   The ratification shall be effected by the votes of at least the majority of the stockholders present.
2. For election of Directors
   Pursuant to Section 24 of the Corporation Code, nominees for directors, receiving the highest number of votes shall be declared elected.
3. For election of external auditors
   The nominee receiving majority vote from the stockholders present in the meeting shall be declared as elected.
4. For the ratification of the amendment to the Bank's Articles of Incorporation, the vote of at least two-thirds of the stockholders present.
5. For the ratification of the amendment to the Bank's By-Laws, the vote of at least majority of the stockholders present
6. For the adoption of the Stock Option Plan, the vote of at least two-thirds of the stockholders present.

B) Method by which votes will be counted :

Counting of the ayes and nays or show hands shall be the method by which votes will be counted unless a stockholder requests balloting, in which case, the votes of the stockholders shall be cast by ballot. Votes shall be counted by Sycip, Gorres, Velayo & Co.

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 7 March 2012.

PHILIPPINE BANK OF COMMUNICATIONS

RODOLFO MA. A. PONFERRADA
Corporate Secretary

Nature and Scope of Business

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.

PBCom acquired a license to operate as an expanded commercial bank from Bangko Sentral ng Pilipinas 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 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.

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 Finance Corporation is the only remaining associate of the Bank as of December 31, 2011. It is a domestic corporation incorporated in March 1980. It has 5 employees 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.

In 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.

In October 13 2011, the Monetary Board approved the PBCom acquisition.

In December 22, 2011, the Chung and Nubla Groups had reinvested ₱2.37 Billion as advance subscription to PBCom capital with the balance of ₱0.4 Billion coming in February of 2012.

In 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.

Given the vision and resources of the ISM Group as the Bank's strategic third party investor, PBCom is now ideally situated to achieve 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.

Deposits 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 and traveller'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 a 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 and 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 55.74% 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 44.26% of the Bank's gross income.

(ii) The Bank does not maintain any branch or sales office abroad such that 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 43 automated teller machines deployed in strategic branch sites including 15 off-site/off-branch locations.

(iv) No new product or service requiring a material amount of resources had been recently announced or launched.

(v) The Philippine commercial banking industry is composed of 37 commercial banks (KB) of which 17 are private domestic commercial banks, 18 are foreign banks with either established subsidiaries or foreign branch licenses and 2 are government-controlled banks.

(vi) 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.

(vii) 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, 2011 the Bank is in compliance with such regulations.

(viii)The Bank fully complies with the required capitalization for commercial banks without expanded banking licenses (non-uni-banks) as prescribed by the BSP. The Bank's capital as of end-December 31, 2011 stood at P3.433 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 25.98%.

(ix) As the primary regulatory body overseeing the banking industry, the BSP further prescribes various policies, guidelines and financial ratios governing the conduct of operations which banks are advised to comply with. For a complete listing of these policies and guidelines, please refer to the Manual of Regulations on Banks.

(x) Upon effectivity of Republic Act 9337 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 income on lending activities. The said Republic Act took effect on November 1, 2005. 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.

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

(xii) As of December 31, 2011 the bank had 924 employees with 464 officers and 460 rank and file employees. All rank and file employees are subject to a new two-year collective bargaining agreement reached last February 10, 2011. There had been neither dispute nor occurrence of employees' strike for the past three years. There are no supplemental benefits or incentive arrangements with its employees other than what are defined in the collective bargaining agreement. The Bank expects to maintain the current level of employees within the next twelve (12) months.

(xiii) Risk Management

PBCom's risk mission, objectives and philosophy are based on the strategy that for 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 several Board members and senior management who meets 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, under which capital for operational risk is equal to 15% of the bank's average gross income over the previous three years of positive annual gross income.

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 begun 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 the market risk of the Bank.

Credit risk is the risk to earnings that a counterparty is unable to pay obligations 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 be unable 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 fair values of financial instruments. The Bank follows a prudent policy in 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. 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 effected 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, putting up of reserve for self-insurance and setting up allowances for probable losses, operational risk is mitigated through preventive and detective controls which are embedded in 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. Principal operational risk identification and assessment tool used is 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 being regularly monitored and addressed..

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 the 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:

Operational Loss and Key Risk Indicators Report to analyze, manage and monitor the risk profile of trust; BOD-approved Trust Risk Management Policies to guide Trust in managing risk associated with organization, account management, trading, investment and operations functions; Stress Testing of UITF portfolio to measure the earnings impact to market movements that are considered 'extreme" but possible; and, Conducts seminars, interactive meetings with concerned risk takers to effectively promote risk awareness.

Market Price and Dividends

A. Dividends History:

Year	Stock Dividend	Cash Dividend
2011	-	-
2010	-	-
2009	-	-
2008	-	-

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.

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

B. Stock prices :

	2011		2010		2009	
	High	Low	High	Low	High	Low
First Quarter	55.00	54.50	28.50	28.50	34.00	25.00
Second Quarter	85.00	35.00	28.50	28.50	38.00	27.00
Third Quarter	126.00	45.00	28.50	24.00	33.00	32.00
Fourth Quarter	89.90	56.00	62.00	25.25	45.00	35.00

The latest traded price of PBCom shares was on 9 February 2012 at P82.30 per share.

C. Holders :

The approximate number of holders of each class of Common Security is 396 and Preferred Security is 11 as of 8 February 2012. Common shares issued and outstanding were 52,598,965 and preferred shares were 120,000,000 as of 8 February 2012.

The list of names of the top twenty (20) shareholders of each class, the number of shares held, and the percentage of total shares outstanding held by each are shown in the attached "List of Top 20 Stockholders (Common and Preferred) as of 8 February 2012 marked as *Annex "A".*

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

(a) Full Fiscal years

Discussion of top 5 key performance indicators:

	Dec 2011	**Dec 2010**	**Remarks**
Intermediation Ratio (Loans to Deposits) *Loans refer to the total loan portfolio gross of allowance for losses. Deposits include peso and foreign currency*	39.36%	35.81%	The improvement in loans to deposit ratio was due to the net effect of the increases posted in total deposits and total loan portfolio by P210M and P1.06B in the comparable period.

deposits.			
Non-Performing Loans to Total Loans. *Non-Performing loans refer to all past due loans net of loans past due for 30 days and less. Total Loans refer to total loan portfolio gross of allowance for losses plus interbank loans. The ratio is in accordance with the ratio prescribed under BSP Circular 351.*	4.79%	9.25%	The improvement in NPL ratio was due to the combined effect of the P1.062B increase in total loan portfolio and the decrease in non-performing loans by P365M in the comparable period.
NPL Coverage Ratio *Allowance for Loan Losses (net of fully provisioned loans classified as loss) /Non-Performing loans (net of fully provisioned loans classified as loss)*	143.06%	117.01%	The increase in coverage ratio was mainly attributed to the combined effect of the P262M decrease in NPL's and the P23.6M increment in specific provisions in the comparable period.
Liquidity Ratio (Liquid Assets to Total Deposits and Borrowings) *Liquid Assets include cash, due from banks, interbank loans, and trading and inv. Securities Total dep. & borrowings refer to the total of peso and foreign currency deposits and all other interest-bearing liabilities.*	73.63%	58.87%	The improvement in liquidity ratio was due to the combined effect of the increase in both liquid assets by P5.4B and borrowed funds by P280M in the comparable period.
Capital to Risk Assets (CAR) Cir. 538. *The ratio is in accordance with the guidelines prescribed by BSP on the adoption of the risk-based capital adequacy ratio.*	25.98%	16.71%	The improvement in CAR ratio (as submitted to BSP) was mainly due to the increase in qualifying capital coming from the P2.3B capital infusion in December 2011. PBCom's CAR under BSP Circular 538 covering credit, market and operational risk as of year-end 2011 remains well above the 10% minimum required by the BSP.

Financial Condition & Results of Operations: 2011

The entry of ISM Communications Corporation's (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 in the improvement of the Bank's asset quality and profitability to pave the way for 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. 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 bottomline 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 reversal of provision expense due to full settlement of a fully provided NPL account amounting to P188M which compensated for the decreases in revenue streams from securities trading and 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 and securities gain 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 includes 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 P2.259Band 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 measurement of investment properties from cost to fair value model as allowed under PAS 40, *Investment Properties*; and 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 CS/SA deposits grew by P734.97M. This resulted in 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).
Growths 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.

Financial Condition & Results of Operations: 2009

Total re-stated assets as of December 31, 2009 decreased 7.0% to P37.579 billion from the re-stated level of P40.541 billion at year-end 2008 corollary to the decline in deposits during the period. The net effect of decreases in the bank's demand deposit account with BSP by P1.103 billion; Cash and Other Cash Items by P24.981 million; Available-for-Sale Investments by P1.812 billion; Held-to-Maturity Investments by P5.962 million; Loans and Receivables by P919.992 million; Due from Other Banks by P561.002 million, Investment in an Associate by 45 thousand; Other resources by P49.205 million, Investment Properties by P281.950 million; and the increases in Property & Equipment and Inter-bank Lending & Securities Purchased Under Resale Agreements (SPURA) with BSP by P5.609 million and P1.790 billion respectively, collectively contributed to the decline in resources. Year-on-year loans and discounts dropped by 9.08% to 8.658 billion from P9.522 billion in 2008 due to continued pay downs from select existing accounts in search of cheaper funding from universal banks or capital market, coupled by lower loan demand from both existing and prospective accounts as the country weathered through the fallout from the unfolding global economic crisis and impact of two devastating typhoons which hit the country, thereby seriously affecting investments and credit flows. The economy's measly GDP growth of 0.9% from a record 7.3% growth the previous year attested to the very difficult economic environment that prevailed in 2009. Available-for-sale securities posted a 20.05% or P1.812 billion decline in the comparable period as the Bank's fund managers unloaded P550 million peso denominated AFS securities and $9 million USD denominated AFS (ROP's) in December 2009 on back of the gradual bond market recovery and a declining interest rate regime during the second semester of 2009 that provided opportunities for trading gains. Proceeds of the sale of AFS securities was invested in IBCL and SPURA to beef up the total loan portfolio to P9.904 billion in 2009 from P9.522 billion in 2008, to ensure compliance with the MOU limit on NPL ratio. A 1.93% improvement was recorded in the Bank's NPL ratio of 13.98% from 15.91% in December 2008 as intensified recovery efforts for the past four years have been sustained through 2009 thereby bringing down NPLs further by P129.999 million to P1.385 billion as of December 2009 from the reported P1.515 billion during the same period last year. The Bank booked

P346.495 million in provisions for credit/impairment losses as additional cushion against normal lending risks which increased the total loan loss reserve to P2.499 billion and NPL coverage ratio to an impressive 180.48%.

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 deposit base registered a 9.65% or P3.050 billion decline to P28.563 billion as of year-end 2009 from P31.613 billion during the same period last year as deposit levels, primarily term placements, were moderated as a compensatory measure to curb the impact of the significant decrease in the Bank's lending and securities portfolio on the Bank's net interest margin. On the other hand, total borrowed funds showed a P683.382 million increase in year-on-year average volume mainly coming from inter-bank borrowings and reverse repurchase agreement with BSP to augment the Bank's liquidity stock and address temporary funding gaps corollary to the decline in deposits.

The Bank's re-stated capital base at negative P2.259 billion posted a 24% or P714.321 million growth from the re-stated negativeP2.973 billion as of year-end 2008 and is attributed to the retroactive effect of the change in accounting policy on measurement of investment properties from cost to fair value model as allowed under PAS 40, *Investment Properties*; and 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.

Notwithstanding a difficult year, PBCom managed to post a net income of P316.717 million as re-stated at year-end 2009. Lower loan volumes, thinner net interest margins and lower revenue streams from other income sources resulted to the dip in bottomline profits vis a vis 2008 re-stated net income of P319.477 million.

Net Interest Income (NII) as of December 2009 registered at P1.306 billion, a 10.08% or P146.346 million decline from the P1.452 billion NII posted during the same period last year. Gross interest income decreased by 6.40% or P217.857 million to P3.183 billion from P3.401 billion in year-end 2008 and was mainly attributed to the P102.917 million decline in year-on-year profits from past due interest collection together with the decreases in revenue streams from interest income on Current Loans, UDSCL, deposits with BSP/other banks and Inter-bank/SPURA by P105.979 million, P9.471, P36.956 million and P32.211 million respectively. On the other hand, increases in interest income from securities investment by P19.170 million and other income by P50.507 million mainly coming from the P56.912 million accretion income increment on financial liabilities (PAS 39) held back the decline in interest income this year. The significant reduction in interest income from deposit with BSP/other banks and Inter-bank lending/SPURA was attributed to lower year-on-year average volume due to lower reserve requirements corollary to the decline in deposits from the comparable period. Interest income from the Bank's current loan portfolio also declined on account of the P646.701 million drop in year-on-year average volume. The increase in accrual income from the Bank's securities portfolio was attributed to the P1.029 billion increase in year-on-year average volume of Investment securities holdings. YTD interest expense in 2009 was lower by P71.511 million at P1.877 billion from P1.949 billion in 2008 and was attributed to the combined effect of: savings in interest expense on deposits by P143.475 million on account of the P2.114 billion decline in year-on-year average level and the increase in cost of borrowed funds by P14.931 million on account of higher year-on-year average volume (by 683.382 million) together with the P56.912 million accretion on the PDIC borrowing.

Non-interest income at year-end 2009 as re-stated, was higher by P126.332 million at P843.235 million from the re-stated level of P716.902 million during the same period in 2008 and was mainly attributed to the P141.526 million increase in fair value gain on investment properties together with the growths posted in revenues from foreign exchange by P85.325 million mainly on account of the resulting effect on variance of last year's P70.126 million foreign exchange translation adjustment on MRT bonds; and Securities Trading by P14.548 million. The upturn in net profits was negated by the decreases in revenue streams from gains from sale of acquired assets by P107.389 million; Fees and Commission by P32.096 million coming from the net effect of lower revenues from late payment charges by P26.859 million; ATM charges by P2.645 million and RCOCI by P4.096 million; increase in commissions from trade financing by P4.801 million; Trust fees dropped by P6.888 million on account of lower year-on-year average volume of assets held in trust by P1.935 billion coupled with the decrease in trust fee rate this year; Rent income by P1.825 million mainly due to the termination of lease contract of the Binondo parking lot and Other income by P41.294 million mainly on account of non-recurring income such as advisory fees generated last year.

Operating expenses (excluding provisions for impairment/credit losses and taxes and licenses) posted a P224.028 million decline at P958.819 million as of year-end 2009 from P1.183 billion during the same period of the previous year. This was due to the significant decreases in Miscellaneous expenses by P180.265 million mainly coming from the reversal of provisions for tax assessments amounting to P169.663 million (as the Bank received final judgments from the Court of Tax Appeals on various outstanding tax assessments that cleared the Bank of any obligations from these assessments resulting from the Bank's availment of the Tax Amnesty Program in 2007); and Occupancy and other equipment related costs by P92.092 million that was attributed to the PAS 17 adjustment on leases and reimbursements from PBCom Tower tenants on utility costs. Items which increased operating expenses this year is depreciation and amortization by P48.080 million that was attributed to the combined effect of additional FFE's booked and adjustments in carrying value of investment properties under PAS 40. Manpower cost was relatively flat posting a marginal increase of P248 thousand mainly due to current year accrual for retirement expense in accordance with PAS 19 that negated savings generated from the decrease in salaries/wages expense occasioned by the reduced headcount from the continuing streamlining program of the Bank whereby retiring senior officers, and select middle management positions were not replaced.

(a) Full Fiscal years

- The Bank does not anticipate any cash flow or liquidity problems in the next 12 months after year-end 2011.

- 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 2011 that did not arise from continuing operations.

- Material Changes from Period to Period

Balance Sheet	Variance: Dec' 2011 vs. Dec'2010 Amt	%	Causes
Cash and Other Cash Items	-10.440	-2.75%	Lower cash balance pursuant to policy on effective cash management
Due from BSP	3,601.229	147.62%	Increase in RDA balance to beef up eligible reserves due to the increase in reserve requirements from 19% to 21% in the comparable period.
Due from Other Banks	-41.775	-7.51%	Lower minimum required balance (MRB) with our local depository banks.
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)	1,680.800	146.25%	Higher investment in SPURA.
Available-for-Sale Investment	126.867	0.79%	Higher year-on-year MTM valuation on AFS portfolio.
Loans and Receivables	-2,663.809	-20.20%	Net effect of the decreases in receivable from customers, unquoted debt securities classified (UDSCL) as loans coming from the maturity of Peace Bonds and the increase in accounts receivable.
Investment in an Associate	.411	3.63%	Bank's share of PBCom Finance Corporation income for the period.
Property and Equipment	-40,275	-4.06%	Depreciation for the period and disposals of furniture and equipment.
Investment Properties	114.403	3.02%	Net effect of the Fair Value Gain on ROPA /Condo Units and ROPA sold during the period.
Other Assets	-23.091	-14.29%	Mainly attributed to the net effect of the P41.4M decline in inter-office float items and the P18.8M increase in pre-paid expense coming from higher ROPA sales and loan/rental payment this year.
Demand Deposits	396.026	8.82%	Term placements were moderated as a compensatory measure to curb the impact of thinning spreads in the bank's lending business and the significant decrease in securities portfolio on the banks Net Interest Margin.
Savings Deposits	48.709	2.05%	
Time Deposits	-234.492	-1.13%	
Bills Payable	69.696	0.96%	Net effect of the decreases in deposit substitutes & foreign currency inter-bank borrowings (560M) and the P629M accretion increment on borrowing from PDIC.
Outstanding Acceptances	3.824	7.19%	Increase in bills of exchange accepted by the Bank
Marginal Deposits	-4.217	-100%	Lower volume of Documentary Credits.
Manager's Checks	-.220	-0.65%	Decrease in un-negotiated MC's as of report date
Accrued Interest, Taxes and Other Expenses Payable	123.655	81.66%	Net Effect of current year accrual for bonuses and higher GRT during the period and the decline in accrued interest on deposits and payment of interest on PDIC borrowing in September.
Deferred Tax Liabilities	108.281	33.84%	Increase in revaluation increment on investment properties.
Other Liabilities	-835.593	-29.35%	Mainly on account of the P629M accretion on borrowing from PDIC and reversal of accruals for tax assessments amounting to P208M

Income Statement	Inc/(Dec) Jan-Dec 2011 vs Jan-Dec 2010 Amount	%	Causes
Interest Income on Loans & Receivables	-157.999	-14.10%	Lower revenues from past due interest collection and lower interest income from UDSCL coming from the maturity of Peace Bonds in October 2011 outweighed the growth in accrual income from current loans coming from the net effect of the P748M increase in year-on-year average volume of current loans and the contraction in year-on-year lending rates by an average of 53 basis points.
Interest Income on trading and investment securities	-140.081	-9.96%	Combined effect of the P1.8B decrease in year-on-year average volume of securities trading portfolio and the decline in interest rates by an average of 48 basis points.
Interest Income on IBCL & SPURA	17.755	74.17%	Higher year-on-year average volume of investment in SPURA.
Interest Income on Deposit with other Banks	-.730	-2.07%	The decline in revenues from deposits with banks due to lower year-on-year average balance in settlement accounts maintained with correspondent banks and the lowering of the minimum required balance (MRB) of our local depository banks outweighed the growth in accrual income from Due from BSP coming from the increase in year-on-year average balance.
Interest Income –Others	92.872	18.02%	Accretion increment on borrowings with PDIC (effective interest rate method)
Interest Expense on Deposit Liabilities	-71.279	-8.13%	Combined effect of lower year-on-year average volume of term placements and the contraction in year-on-year interest rates on time deposits by an average of 17 basis points.
Interest Expense on Bills payable, borrowings	51.518	7.16%	Net effect of the accretion increment on borrowings with PDIC (effective interest rate method) and the decline in year-on-year average volume on inter-bank borrowings and deposit substitutes by P560M that negated the effect of the hike in interest rates by an average of 38 basis points in the comparable period.
Trading and Securities Gain – net	-302.002	-57.03%	Reduced trading gains from dollar ROPs as a result of the decline in volume and limited trading opportunities as elevated level of ROP prices remained. Lower trading gains from Peso GS due to the decline in volume traded.
Service Charges, Fees & Commissions	-7.905	-5.83%	The decline in revenues from late payment fees on loans, management fees, ATM fees RCOCI charges outweighed the increase in earnings from Trade financing and LC fees & commission in the comparable period.
Income from Trust Operations	6.257	46.52%	Increase in Year-on-year average Trust Assets by P3.4B compared to previous year.
Rent Income	-13.176	-4.35%	Lower revenue from Rent income-Tower due to lower occupancy coupled with the reduction in rental rates during the period and Rent income-ROPA due to end of lease contracts as well as the sale of various leased ROPA in the comparable period.
Profit/(Loss) from Assets Sold/Exchanged	3.267	64.82%	Higher gains on sale of ROPA this year.

Foreign Exchange Gain (Loss) -Net	48.423	1,913.52%	Higher revaluation gains and actual/realized gains from foreign exchange trading this year.
Miscellaneous Other Income	1.388	5.20%	Higher revenues from penalty charges on loans this year.
Compensation and Fringe Benefits	15.050	2.48%	Mainly on account of the increases in salaries and wages due to the CBA mandated adjustments on employee's salaries and benefits and the increase in Banks contribution to the retirement fund in the comparable period.
Depreciation & Amortization	-17.738	-23.17%	Decreases in Software amortization cost that was attributed to various software licenses that were fully amortized in 2010, Depreciation-FFE due to various work stations and car plans of retired senior officers that were fully depreciated in 2010 and Depreciation-ROPA due to the sale various acquired assets during the period.
Occupancy and other equipment- related costs	23.350	34.76%	Combined effect of higher consumption costs and lower reimbursements from PBCom Tower tenants on utility costs coupled with the increase in rent expense coming from the increase in number of Off-site ATM's and the hike in rent expense in the comparable period.
Taxes and Licenses	-19.814	-6.30%	Lower revenues subject to gross receipt tax and decrease in documentary stamp tax expense due to the decline in year-on-year average volume of term placements and deposit substitutes.
Miscellaneous	-182.111	-53.21%	Mainly on account of the reversal of accruals for tax assessments amounting to P208M as the Bank received final judgments from the Supreme Court on various outstanding tax assessments and the decreases in PDIC premium expense, info technology expense, brokerage fees and representation expenses in the comparable period outweighed and compensated for the increase in Management & Professional fees coming from the payment of consultancy fees to SGV for the ICAAP, success fee to Maqurie Ltd., increase in employees under management contracts this year and higher litigation expenses due to the reimbursement of legal fees from a big ticket account last year.
Provision for impairment losses	-187.137	-94.62%	Reversal of specific provisions due to full settlement of a fully provided NPL account amounting to P188M during the period.
Provision for Income Tax	37.059	11.28%	Net effect of deferred tax liabilities booked on revaluation increment during the period and lower final taxes paid due to decline in year-on-year volume of tax-paid investments.

Interest income on non-discounted loans are 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.

Material Commitments for Capital Expenditures

There are no material commitments for capital expenditures.

Any Known Trends, Events or Uncertainties

The Bank believes that current economic trends will not have a material impact on the Bank's liquidity. The Bank remains compliant with BSP-mandated reserve requirement levels that effectively guarantee its capability to service regular and unexpected withdrawals from depositors. The Bank's funding mix remains heavily in favor of deposits.

Seasonal Aspects that has Material Effect on the Financial Statements

Interest income on non-discounted loans are 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. Non-interest revenues, on the other hand, are largely dependent on market dynamics and economic trends rather than on seasonal factors.

Corporate Governance

Discussion on Compliance with leading practice on Corporate Governance

a. Evaluation system established by the company to measure or determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance		The Board annually assesses its performance and effectiveness as a body, covering the various Board Committees, the chief executive officer and the bank itself, complying with the regular submission of the SEC Corporate Governance Scorecard and the PSE Corporate Guidelines. Performance of the Board Committees is assessed by the Governance Committee. The Directors also rate the performance of the Board and their individual performance and this is duly reviewed by the Governance Committee.
b. Measures being undertaken by the company to fully comply with the adopted leading practices on good corporate governance		Compliance Group ensured that all of its directors attend the required Corporate Governance Course for Directors. All newly elected directors have taken the course.. Disclosure of Equity Holdings and Outstanding Obligations is required from all Directors and Senior Officers annually.
c. Any deviation from the company's Manual of Corporate Governance. Including a disclosure of the name and position of the person/s involved and sanction/s imposed on said individual		The Annual Stockholders meeting for 2011 was deferred in anticipation of the strategic third party investor.
d. Any plan to improve corporate governance of the company		Our Directors continue to be actively involved of in their respective committees; Corporate Governance Manual is currently under review

Philippine Bank of Communications

Attachment

Audited Financial Statements as of 31 December 2011

UNDERTAKING

The Bank shall furnish the stockholders a copy of SEC Form 17-A without charge upon written request except for exhibits attached thereto which shall be charged at cost. The written request shall be addressed to:

Office of the Corporate Secretary
Philippine Bank of Communications
5th Floor, PBCom Tower
6795 Ayala Avenue corner V.A. Rufino St.
Makati City, 1226

PHILIPPINE BANK OF COMMUNICATIONS

By:

RODOLFO MA. A. PONFERRADA
Corporate Secretary

Philippine Bank of Communications

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

7 March 2012

NOTICE OF REGULAR STOCKHOLDERS' MEETING

To: **ALL STOCKHOLDERS**

Please be advised that the Regular Meeting of the Stockholders of PHILIPPINE BANK OF COMMUNICATIONS (PBCom) will be held on Wednesday, 28 March 2012 at 3:00 p.m. Venue will be at The Tents, Alphaland Southgate Tower, 2258 Chino Roces Avenue corner EDSA, Makati City, to discuss the following:

I. Approval of the Minutes of the Annual Stockholders' Meeting held on 15 October 2010
II. Ratification of All Acts and Proceedings of the Board of Directors and Management
III. Report of the Results of Operations for the Years 2011 and 2010 and Approval thereof
IV. Ratification of the Amendment of Article VII of the Articles of Incorporation re: Quasi-Reorganization and Increase in Authorized Capital Stock
V. Ratification of the Amendment of By-Laws re: Creation of the Office of Internal Auditor
VI. Adoption of a Stock Option Plan
VII. Election of the Members of the Board of Directors
VIII. Appointment of External Auditor
IX. Other Matters

For purposes of the meeting, only stockholders of record as of 8 February 2012 are entitled to vote in said meeting.

Should you be unable to attend the meeting in person, you may appoint a proxy by executing the Proxy Form which is available, upon request at the Office of the Corporate Secretary with office address at 5th floor, PBCom Tower, 6795 Ayala Ave., corner V.A. Rufino St., Makati City and telephone no. 830-7061. For validation, please return the completed Proxy Form to the undersigned c/o AB Stock Transfers Corporation on or before 21 March 2012 at the 10/F, Alphaland Southgate Tower, 2258 Chino Roces Avenue corner EDSA, Makati City. Only proxies received on or before this date shall be recognized for the meeting unless revoked by personal appearance of the stockholder or by a later proxy which is received on or before the above cut-off date. Proxies received after the cut-off date shall not be recognized for the meeting.

Registration will start at 2:00 p.m. Please bring some form of identification such as your driver's license or passport to facilitate registration.

By Order of the Board:

RODOLFO MA. A. PONFERRADA
Corporate Secretary

ANNEX A

PHILIPPINE BANK OF COMMUNICATIONS
TOP TWENTY (20) STOCKHOLDERS
AS OF FEBRUARY 8, 2012

	Total Shares	%	Common Shares	Preferred Shares
1. ISM Communications Corporation	63,233,759	36.64%	17,460,219	45,773,540
2. Ongpin, Roberto V.	42,980,484	24.90%	12,263,593	30,716,891
3. Recto, Eric Ramon O.	29,498,943	17.09%	8,416,917	21,082,026
4. Langford Universal Finance Ltd. (Foreign)	15,263,964	8.84%	4,355,254	10,908,710
5. Injap Investments, Inc.	3,581,706	2.08%	1,021,965	2,559,741
6. Roxas-Chua, Ray Anthony Go	3,581,706	2.08%	1,021,964	2,559,742
7. PCD Nominee Corporation (Filipino)	2,989,381	1.73%	2,989,381	
8. Yu, Gregorio T.	1,790,863	1.04%	510,993	1,279,870
9. Cham, Edison Siy	1,790,853	1.04%	510,983	1,279,870
10. Chan Kok Bin	1,790,853	1.04%	510,983	1,279,870
11. KLG International, Inc.	1,790,853	1.04%	510,983	1,279,870
12. Lim, Benito T.	1,790,853	1.04%	510,983	1,279,870
13. Chua, Renato C.	814,666	0.47%	814,666	
14. Ching, Winnifred	187,798	0.11%	187,798	
15. Ching, Jeffrey	175,505	0.10%	175,505	
16. Southeastern Investment & Realty Corporation	133,130	0.08%	133,130	
17. Sy, Dioceldo S.	117,820	0.07%	117,820	
18. Center Industrial & Investment, Inc.	114,970	0.07%	114,970	
19. Bengsons Investment & Realty Corporation	88,133	0.05%	88,133	
20. Cosmopolitan Investment Co., Inc.	85,422	0.05%	85,422	

Total issued and outstanding shares (inclusive of one (1) common share in treasury) - 172,598,966

PHILIPPINE BANK OF COMMUNICATIONS
<u>STOCK OPTION PLAN</u>

ARTICLE I
DEFINITIONS

As used herein, unless the context otherwise requires:

"Board" means the Board of Directors of the Company;

"Code" means the Corporation of the Philippines;

"Committee" means the Stock Option Committee;

"Company" means Philippine Bank of Communications;

"Contract of Subscription" is the contract entered into between the Company and the Participant for the subscription of shares under this plan as provided for in Article 7.4;

"Effectivity Date" is the date one (1) year after an option is awarded to the Participant;

"Executive Committee" is the Executive Committee of the Company created by the Board pursuant to the By-Laws of the Company;

"Exercise Date" is the date of the month on which the notice addressed to the Committee from a participant of his decision to subscribe to shares under the Plan as provided in Article 7.3 is received by the Committee, which date should be on or before the last day of the period of validity of the option being exercised;

"Fair Market Value" shall be the average closing price of the Company's stock as stated in the Philippine Stock Exchange's quotation sheet for a certain number of trading days (on which sales of the Company's were made) immediately preceding the date of the grant, as determined by the Committee or such adjustments thereof that may be made by the Committee in any of the events covered by Article 5.2;

"Participant" means a director, officer, employee of the Company as well as its subsidiaries and affiliates as determined eligible by the Board, or other Qualified Person eligible to participate in the Plan as provided in Article III and who actually participates in the Plan;

"Plan" is the Philippine Bank of Communications Stock Option Plan;

"Pledged Shares" are the shares pledged as security for the payment of Subscribed Shares and compliance with the Contract of Subscription;

“Qualified Person” is any person, natural or juridical, who is not otherwise an employee. Officer or director of the Company or any of its subsidiaries or affiliates, and who has provided or undertaken to provide goods and/or services to the Company, which, in the sole determination of the Committee, will develop and promote the business and financial success of the Company thereby enhancing shareholder value;

“Subscription Price” is the price that the Participant is required to pay for shares subscribe to by him under the Plan as computed by the Committee; and

“Subscribed Shares” are the shares subject of the Contract of Subscription.

ARTICLE II
THE PLAN

2.1 Name – This Plan shall be known as the “Philippine Bank of Communications Stock Option Plan”.

2.2 Objectives - The Plan provides a mechanism for employees, officers, directors of the Company as well as of its subsidiaries and affiliates as determined eligible by the Board, and other Qualified Persons to become stockholders of the Company. Specifically, the objectives of the Plan are:

a) To encourage a sense of proprietorship on the part of key employees, officers, directors and other Qualified Persons who are or will be largely responsible for the development of the Company;
b) To furnish such key employees, officers and Qualified Persons with an incentive to develop and promote the business and financial success of the Company thereby benefitting all shareholders of the Company;
c) To allow suck key employees, officers and Qualified Persons to participate directly in the growth of the Company and thus motivate them toward greater productivity, loyalty, devotion and concern for the Company’s well-being;
d) To induce such key employees, officers and Qualified Persons to continue in the service of the Company; and
e) To recognize valuable service.

ARTICLE III
ELIGIBILITY

All employees, officers and directors of the Company, as well as of its subsidiaries and affiliates, and such other Qualified Persons who may be recommended from time to time by the Board of the Executive Committee to the Committee as qualified, are eligible to participate in the Plan, subject to the restrictions and terms and conditions herein provided.

ARTICLE IV
<u>ADMINISTRATION</u>

4.1 <u>Creation of the Committee</u> – The Plan shall be administered by a Committee of three (3) to be organized and appointed by the Board or the Executive Committee. Members of the Committee shall be appointed for a term of one (1) year, and shall hold office until their respective successors are duly appointed. Members may be re-appointed. In case of any vacancy in the Committee, a successor to hold office for the unexpired term of the member of the Committee shall be appointed by the Board or the Executive Committee. The members of the Committee shall receive such compensation as may be determined by the Board or the Executive Committee.

4.2 <u>Duties and Powers of the Committee</u> – Subject to the provisions of the Plan, the Committee shall have full power and authority (a) to determine those to whom share options are to be granted, the times when share options shall be granted, the effectivity dates of the grants, the Subscription Price for the shares covered by the Grant, and the number of shares to be allocated to each Participant at a given time; (b) to revise, reprice, recall or rescind a grant; (c) to interpret the Plan, and to prescribe, amend and rescind rules and regulations relating to the Plan; (d) to determine the details and provisions of each Contract of Subscription; and (e) to make all other determinations necessary or advisable for the administration of the Plan. Any determination, act or decision of the Committee pursuant herewith shall be final and conclusive. A Participant is deemed to have waived any objection he may have under the law or elsewhere on the authority of the Committee to make such call or declaration.

4.3 <u>Majority Rule</u> – A majority of the members of the Committee shall constitute a quorum, and any action taken by a majority present at a meeting at which a quorum is present, or any action evidenced by a written instrument and executed by a majority of the whole committee, shall constitute the action of the Committee.

ARTICLE V
<u>SHARES OF STOCK SUBJECT OF PLAN</u>

5.1 <u>Object of the Plan</u> – Subject to Article 5.2, shares comprising Ten Percent (10%) of the Company’s authorized common stock are the object of the privileges accorded to the Participants under the Plan.

In the event any unexercised options lapse or terminate for any reason, the shares reserved therefore and covered thereby shall revert back to the pool of shares reserved for the whole Plan, and may be optioned to other qualified Participants in accordance herewith.

5.2 Stock Dividends, Stock Splits and/or Other Changes in Capital Structure – The number of shares granted under the Plan shall be correspondingly adjusted in the event of any merger, consolidation, reorganization, recapitalization, reclassification of stock, stock dividend, stock split, rights issue, private placement, public offering, issue of warrants or any change in the capital structure or capitalization of the Company's common stock as presently constituted. Thus, in the event stock dividends are declared and issued, the number of unexercised option shares at the time of the effectivity of such change in capital structure shall be adjusted proportionately. The same rule shall apply in the event of a stock split or rights issue.

ARTICLE VI
SUBSCRIPTION PRICE AND PAYMENT

6.1 Subscription Price – The Subscription Price of the shares under each option granted pursuant to the Plan shall be such price as may be allowed under the rules of the Philippine Stock Exchange Commission, as determined by the Committee, subject to adjustment thereof in any of the events covered by Article 5.2. In no case however shall the Subscription Price be less than par.

6.2 Payment Terms – As a general rule, a Participant shall tender on Exercise Date, full payment of the Subscription Price over the shares that have been vested and subscribed, the same to be properly receipted for the Company's Controller. In meritorious cases, however, upon approval of the Committee, the Participant may tender payment on Exercise Date in an amount equivalent to at least forty percent (40%) of the Subscription Price, with the balance to be paid over a period determined by the Committee not exceeding three (3) years from the Exercise Date; Provided, that in the limited case of employee and officer Participants of the Company and/or its subsidiaries and affiliates who are not simultaneously directors of the Company, the Committee may allow the Subscription Price to be paid: (I) by tender of an initial down payment of at least 25% Subscription Price with the balance to be paid over a period determined by the Committee not exceeding three (3) from Exercise Date; and/or (II) through a planned payroll deduction scheme, with or without interest as determined by the Committee, over a period not exceeding three (3) years from Exercise Date.

ARTICLE VII
EXERCISE OF PRIVILEGE

7.1 Duration of Option - The shares covered by any one grant shall be offered for subscription for a period of three years from and after the Effectivity Date of each grant that may be determined by the Committee.

7.1 Vesting of Privilege - One-third (1/3) of the total number of shares covered by a grant to a Participant shall vest upon the Effectivity Date of the grant. Another one-third (1/3) of the shares shall vest one year after the Effectivity Date of the grant, and the remaining one-third (1/3) of the shares shall vest two years after the Effectivity Date of the grant.

7.3 Exercise Privilege – At any time after the shares are vested and before the lapse of the three-year duration referred to in Article 7.1 a Participant may, subject to the provision of the Plan, the rules promulgated by the Committee, and the necessary regulatory approvals, subscribe to such number of shares as he may be allowed to subscribe to as of the Exercise Date. When a Participant decides to exercise his privilege under the Plan, he shall do so by means of notice in writing to the Company, through the Committee, specifying therein:

a.) His decision to exercise his privilege;
b.) Subject to the provisions of the Plan, the number of shares he desires to subscribe to; and
c.) The Subscription Price as stated in the grant.

7.4 Contract of Subscription – The Company and the Participant shall execute a Contract of Subscription with the following principal terms and conditions:

a.) Issuance – The Participant's ownership over the Subscribed Shares shall be effective on the same date that the Contract of Subscription is executed by the Participant and accepted by the Company together with the required full or partial payment. Upon the acceptance of the subscription and the payment of the amounts required thereon, if any, the Participant shall be entitled to all the rights and privileges of ownership corresponding to the Subscribed Shares. The certificate of stock covering the Subscribed Shares shall be issued only upon the Participant's full payment of the corresponding Subscription Price.
b.) Consideration – In addition to the full payment of the Subscription Price, the fundamental consideration for the issuance of the Subscribed Shares under the applicable terms and conditions of the contract shall be the undertaking of the Participant to (I) continue rendering efficient and dedicated service to the Company, (II) continue exerting efforts to enable the Company to achieve its corporate objectives, (III) continue rendering loyalty to the Company, and (IV) without the express consent of the Company, directly or indirectly, or from serving any entity or person with the same, allied, or similar or similar objectives or interests as the Company, whether as an adviser, consultant, employee, officer or director, all during the period when he remains in the employ of the Company and for the first five (5) years from his retirement, resignation or separation from the Company.
c.) Dividends and Voting Rights – Cash and stock dividends on the Subscribed Shares shall be paid out to the Participant provided that stock dividends shall, as provided in Article 7.5, be pledged to the Company. Subject to Article 7.8, all voting rights of the Subscribed Shares, including Pledged Shares, shall be exercised by the Participant.

7.5 Pledge - In case the Subscribed Shares are not fully paid as at Exercise Date, the Participant shall, simultaneously with the execution of the Contract of Subscription, likewise execute a deed of pledge in favor of the Company as security for his faithful performance of his obligations, subject to and under the following terms and conditions:

a.) The pledge shall cover the (I) Subscribed Shares, (II) all stock dividends thereon, (III) all stock dividends arising from all stock dividends, and (IV) all shares arising from stock rights and splits, mergers, consolidations, reorganization, recapitalization, and any other change in the corporate structure or capitalization of the of the Company's common stock as presently constituted.

b.) If there be an unpaid portion of the Subscription Price on the due dates thereof, whether as originally specified or as accelerated under the Plan, in the proper case, or if there be breach by the pledgor of the Contract of Subscription, the Company may, as its sole option, foreclose on the Pledged Shares.

7.6 <u>Non-transferability of Rights</u> - The rights granted to Participant under the Plan are personal and shall not be assignable or transferrable. Any assignment or transfer in violation hereof shall be null and void.

7.7 <u>Delinquency</u> - Should a Participant fail to pay any installment when due, the Committee may declare the entire balance due and payable on a date fixed by the Committee. If payment is not made by said date, the Subscribed Shares shall become delinquent and may be ordered sold by the Committee as may be duly authorized by the Board in a delinquency sale in accordance with the provisions of the Code. Upon the discretion of the Committee, the Participant may pay his entire obligation due on the Subscribed Shares and all costs and expenses, including any publication or legal fees, until the date of the delinquency sale. The foregoing remedy shall be in addition to and without prejudice to such other remedies as are available to the Company under the Plan or elsewhere.

7.8 <u>Rights of Delinquent Stock</u> - No delinquent stock shall be voted or be entitled to vote or be represented at any stockholders' meeting unless and until the amount due on the subscription, plus interest and costs and expenses of notice and advertisement, if any, are paid. Cash dividends thereon shall be applied to the payment of the aforementioned liabilities and stock dividends shall be withheld until payment of the said liabilities.

7.9 <u>Listing and Trading of Subscribed Shares</u> – Subject to the necessary regulatory approvals of the Securities and Exchange Commission and the Philippine Stock Exchange, the Subscribed Shares shall be listed and traded on the Philippine Stock Exchange only after the Company has received the corresponding Subscription Price in full.

ARTICLE VIII
<u>RETIREMENT, DEATH OR SEPARATION OF A PARTICIPANT</u>

8.1 <u>Retirement or Separation of Participant</u> – In the event of retirement or separation from service by a Participant, including termination for cause, the outstanding amount due on the Subscribed Shares shall become immediately due and payable without the need for a call on the unpaid subscription payments. In addition, such Participant shall forfeit the right to exercise any outstanding options, whether vested or not, that may have been granted to him.

8.2 <u>Death of Participant</u> – In the event of death of a Participant, the outstanding amount due on the Subscribed Shares shall be immediately become due and payable; the shares fully paid would then be released to the Participant's estate or lawful heirs, as the case may be. Unexercised options shall be automatically forfeited. However, those options that have become vested prior to or at the time of the Participant's date of death will pass to his lawful heirs and may be exercised by such heirs within sixty (60) days from the participant's death; otherwise, such options shall also be automatically forfeited.

ARTICLE IX
SUSPENSION OR TERMINATION OF THE PLAN

The Plan shall be effective during the lifetime of the Company, unless sooner terminated by the Board or the Executive Committee in accordance with the law.

ARTICLE X
MISCELLANEOUS

10.1 Employment – Nothing in the Plan shall confer upon any Participant the right to continue in the employment of the Company.

10.2 Bargaining Agreement – The terms and conditions of the Plan may not be the subject of negotiations in a collective bargaining agreement.

10.3 Corporate/Government Approvals - The Plan shall be subject to all requisite corporate and governmental approvals. All provisions of the Plan are limited to the extent mandated by any applicable law or government rules and regulations. If any one or more paragraphs, clauses or other portions of the Plan should ever be determined to be illegal, invalid or otherwise unenforceable by any governmental authority, the Committee is authorized to amend or modify the Plan to make it conform to all applicable laws and government rules and regulations.

10.4 Amendments – The Committee may, in its discretion, amend or modify the Plan or any provision thereof provided any such amendment shall not prejudice any right already vested or privilege already exercised under the Plan.

Approved on 28 March 2012 by the Board of Directors of Philippine Bank of Communications pursuant to the authority granted by the stockholders during the meeting on 28 March 2012.

Philippine Bank of Communications

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

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

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

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

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine Bank of Communications

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, 2011, 2010 and 2009 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2011, 2010 and 2009 and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards.

Other matter

In our auditor's report dated March 31, 2011, our opinion on the December 31, 2010 and 2009 financial statements prepared in accordance with Generally Accepted Accounting Principles in the Philippines for Banks and Philippine Financial Reporting Standards, respectively, was qualified because the excess of the book value over the net realizable value arising from the sale of the Bank's nonperforming loans and real and other properties acquired to a special purpose vehicle amounting to ₱11.12 billion in 2004 was deferred over a ten-year period starting in 2005 in accordance with regulatory accounting policies prescribed by the Bangko Sentral ng Pilipinas for banks and financial institutions availing of the provisions of Republic Act No. 9182, "The Special Purpose Vehicle Act of 2002". Generally Accepted Accounting Principles in the Philippines for Banks and Philippine Financial Reporting Standards require that the excess of the book value over the net realizable value of nonperforming loans and real and other properties acquired which were sold to the special purpose vehicle be charged to 2004 operations.

As discussed in Note 30 to the financial statements, the 2010 and 2009 financial statements were restated to account for the excess of the book value over the net realizable value of nonperforming loans and real and other properties acquired which were sold to the special purpose vehicle in accordance with Philippine Financial Reporting Standards. Accordingly, our opinion on the 2010 and 2009 financial statements, as presented herein, is no longer qualified.

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 B. Lee-Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174802, January 2, 2012, Makati City

February 22, 2012

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, 2011, 2010 and 2009, in accordance with the prescribed financial reporting framework indicated therein. 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.

ROBERTO V. ONGPIN
Chairman of the Board

HENRY Y. UY
President and Chief Executive Officer

ANGELO M. CORPUS
Executive Vice President and Treasurer

Signed this 22nd day of **February 2012**

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

SUBSCRIBED AND SWORN TO before me this MAR 07 2012, at MAKATI CITY, affiants, Roberto V. Ongpin, Henry Y. Uy, and Angel M. Corpus, exhibiting to me their TIN 130-725-714, 122-824-523 and 137-000-239, respectively.

Doc. No. 374
Page No. 6
Book No. 5
Series of 2012.

MARIANO T. VILLAFRANCA
Notary Public Makati City

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF FINANCIAL POSITION

	December 31		
	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
ASSETS			
Cash and Other Cash Items (Notes 15 and 16)	**₱369,163,701**	₱379,603,692	₱395,600,974
Due from Bangko Sentral ng Pilipinas (Notes 15 and 16)	**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 (Note 7)	**2,830,082,240**	1,149,282,177	1,790,111,707
Available-for-Sale Investments (Notes 8 and 30)	**16,143,744,549**	16,016,877,278	7,223,561,062
Held-to-Maturity Investments (Note 30)	**–**	–	7,794,492,591
Loans and Receivables (Notes 9 and 28)	**10,521,538,433**	13,185,347,826	12,608,985,453
Investment in an Associate (Note 10)	**11,710,160**	11,299,640	11,642,380
Property and Equipment (Note 11)			
At cost	**582,767,709**	595,063,677	640,056,002
At appraised value	**369,300,000**	397,279,000	282,638,490
Investment Properties (Notes 12 and 30)			
Condominium units for lease	**3,466,407,778**	3,119,598,000	2,969,850,147
Foreclosed properties	**432,234,394**	664,641,238	991,426,657
Other Assets (Notes 13 and 30)	**138,490,321**	161,581,678	210,018,545
	₱41,421,034,400	₱38,676,714,962	₱37,579,340,989

LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities (Notes 15 and 28)			
Demand	**₱4,883,897,485**	₱4,487,871,897	₱3,858,100,203
Savings	**2,424,174,911**	2,375,465,528	2,270,263,759
Time	**20,509,819,319**	20,744,311,004	22,434,211,310
	27,817,891,715	27,607,648,429	28,562,575,272
Bills Payable (Note 16)	**7,355,846,372**	7,286,150,049	7,373,672,286
Outstanding Acceptances	**57,006,115**	53,181,970	40,634,330
Manager’s Check	**33,800,311**	34,019,822	41,848,961
Accrued Interest, Taxes and Other Expenses (Note 17)	**275,086,724**	151,431,250	217,809,142
Deferred Tax Liabilities - net (Note 27)	**428,223,235**	319,942,340	231,639,379
Other Liabilities (Note 18)	**2,019,950,490**	2,851,147,951	3,370,385,934
	37,987,804,962	38,303,521,811	39,838,565,304
Equity			
Preferred stock (Note 20)	**3,000,000,000**	3,000,000,000	3,000,000,000
Common stock (Note 20)	**5,259,896,500**	5,259,896,500	5,259,896,500
Deposit for future stock subscription (Note 20)	**2,373,032,602**	–	–
Additional paid-in capital	**476,011,662**	476,011,662	476,011,662
Surplus reserves (Note 20)	**105,772,314**	105,772,314	105,772,314
Deficit (Note 30)	**(9,655,254,740)**	(10,451,617,044)	(11,038,968,664)
Net unrealized gains (losses) on available-for-sale investments (Note 8)	**1,723,163,315**	1,765,820,381	(176,986,021)
Revaluation increment on land (Note 11)	**173,260,544**	192,511,944	112,935,135
Cumulative translation adjustment	**(22,652,759)**	24,797,394	2,114,759
	3,433,229,438	373,193,151	(2,259,224,315)
	₱41,421,034,400	₱38,676,714,962	₱37,579,340,989

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF INCOME

	Years Ended December 31		
	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
INTEREST INCOME			
Trading and investment securities (Note 23)	**₱1,267,052,217**	₱1,406,693,396	₱1,525,635,784
Loans and receivables (Notes 9 and 28)	**962,579,022**	1,120,577,647	1,113,094,853
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**41,694,258**	23,939,421	16,024,103
Deposits with other banks and others	**34,495,207**	35,225,129	48,602,458
Others (Note 18)	**608,226,075**	515,354,449	480,157,793
	2,914,046,779	3,101,790,042	3,183,514,991
INTEREST AND FINANCE CHARGES			
Deposit liabilities (Notes 15 and 28)	**805,901,776**	877,180,998	1,196,653,388
Bills payable, borrowings and others (Note 16)	**771,151,927**	719,633,489	680,720,326
	1,577,053,703	1,596,814,487	1,877,373,714
NET INTEREST INCOME	**1,336,993,076**	1,504,975,555	1,306,141,277
Fair value gain from investment properties (Notes 12 and 30)	**314,939,246**	5,098,828	143,616,904
Rent income (Notes 12 and 25)	**289,688,114**	302,863,960	306,474,116
Trading and securities gain - net (Notes 8 and 23)	**227,576,224**	530,017,916	119,185,253
Service charges, fees and commissions	**127,672,852**	135,578,117	147,998,643
Foreign exchange gain (loss) - net	**45,892,901**	(2,530,596)	22,758,974
Income from trust operations (Note 22)	**19,707,792**	13,450,562	15,208,616
Profit from assets sold or exchanged (Note 12)	**8,307,707**	5,040,333	68,048,244
Miscellaneous (Note 10)	**28,053,164**	26,665,410	19,944,662
TOTAL OPERATING INCOME	**2,398,831,076**	2,521,160,085	2,149,376,689
Compensation and fringe benefits (Notes 24 and 28)	**622,260,886**	607,210,898	616,045,361
Taxes and licenses (Note 27)	**294,569,756**	314,383,383	313,313,804
Occupancy and other equipment-related costs (Note 25)	**90,520,051**	67,169,854	57,830,203
Depreciation and amortization (Note 11)	**58,806,651**	76,544,552	91,873,659
Provision for credit and impairment losses - net (Note 14)	**10,649,067**	197,786,006	378,555,825
Miscellaneous (Note 26)	**160,126,031**	342,236,653	133,041,260
TOTAL OPERATING EXPENSES	**1,236,932,442**	1,605,331,346	1,590,660,112
INCOME BEFORE TAX	**1,161,898,634**	915,828,739	558,716,577
PROVISION FOR INCOME TAX (Note 27)	**365,536,330**	328,477,119	241,999,356
NET INCOME (Notes 29 and 30)	**₱796,362,304**	₱587,351,620	₱316,717,221
Basic/Diluted Earnings Per Share (Note 29)	**₱4.61**	₱3.40	₱1.83

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
NET INCOME	**₱796,362,304**	₱587,351,620	₱316,717,221
OTHER COMPREHENSIVE INCOME (LOSS)			
Changes in net unrealized gain (loss) on available-for-sale investments (Note 8)	**(42,657,066)**	1,942,806,402	427,058,721
Net movement in revaluation increment, net of tax (Note 11)	**(19,251,400)**	79,576,809	(21,520,099)
Net movement in cumulative translation adjustment	**(47,450,153)**	22,682,635	(7,934,920)
OTHER COMPREHENSIVE INCOME (LOSS)	**(109,358,619)**	2,045,065,846	397,603,702
TOTAL COMPREHENSIVE INCOME	**₱687,003,685**	₱2,632,417,466	₱714,320,923

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 (Note 30)	Net Unrealized Gains (Losses) on Available-for-Sale Investments (Note 8)	Revaluation Increment on Land (Note 11)	Cumulative Translation Adjustment	Total Equity (Note 30)
Balance at January 1, 2011, as previously reported	**₱3,000,000,000**	**₱5,259,896,500**	**₱–**	**₱476,011,662**	**₱105,772,314**	**(₱5,383,740,185)**	**(₱100,328,978)**	**₱192,511,944**	**₱24,797,394**	**₱3,574,920,651**
Adjustments (Note 30)	–	–	–	–	–	**(5,067,876,859)**	**1,866,149,359**	–	–	**(3,201,727,500)**
Balance at January 1, 2011, as restated	**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, as previously reported	₱3,000,000,000	₱5,259,896,500	₱–	₱476,011,662	₱105,772,314	(₱5,761,043,913)	(₱176,986,021)	₱112,935,135	₱2,114,759	₱3,018,700,436
Adjustments (Note 30)	–	–	–	–	–	(5,277,924,751)	–	–	–	(5,277,924,751)
Balance at January 1, 2010, as restated	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
Balance at January 1, 2009, as previously reported	₱3,000,000,000	₱5,259,896,500	₱–	₱476,011,662	₱105,772,314	(₱5,865,996,809)	(₱604,044,742)	₱137,215,136	₱10,049,679	₱2,518,903,740
Adjustments (Notes 30)	–	–	–	–	–	(5,492,448,978)	–	–	–	(5,492,448,978)
Balance at January 1, 2009, as restated	3,000,000,000	5,259,896,500	–	476,011,662	105,772,314	(11,358,445,787)	(604,044,742)	137,215,136	10,049,679	(2,973,545,238)
Total comprehensive income (loss) for the year	–	–	–	–	–	316,717,221	427,058,721	(21,520,099)	(7,934,920)	714,320,923
Transfer to surplus	–	–	–	–	–	2,759,902	–	(2,759,902)	–	–
Balance at December 31, 2009	₱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)

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,161,898,634**	₱915,828,739	₱558,716,577
Adjustments to reconcile income before income tax to net cash generated from (used in) operations:			
Accretion of interest on bills payable (Note 16)	**624,051,417**	551,013,332	486,562,847
Depreciation and amortization (Note 11)	**58,806,651**	76,544,552	91,873,659
Reversal of provision for tax assessments (Note 26)	**(197,871,861)**	–	(169,663,646)
Amortization of unearned income credited to interest income - others (Note 18)	**(608,226,075)**	(515,354,449)	(480,157,793)
Provision for credit and impairment losses (Note 14)	**10,649,067**	197,786,006	378,555,825
Fair value gain from investment properties (Note 12)	**(314,939,246)**	(5,098,828)	(143,616,904)
Equity in net losses (earnings) of an associate (Note 10)	**(410,520)**	(257,260)	45,200
Gain from bond exchange (Note 30)	–	(22,977,176)	–
Profits from assets sold or exchanged (Note 12)	**(8,307,707)**	(5,040,333)	(68,048,244)
Securities gains from sale of available-for sale investments (Notes 8 and 23)	**(220,166,698)**	(500,900,079)	(115,413,579)
Amortization of premium on held-to-maturity investments	–	–	1,407,718
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Loans and receivables	**2,720,068,972**	(755,574,289)	527,366,863
Other assets	**19,274,877**	18,501,837	(2,197,765)
Increase (decrease) in the amounts of:			
Deposit liabilities	**210,243,286**	(954,926,843)	(3,050,726,217)
Manager's checks	**(219,511)**	(7,829,139)	(13,241,978)
Accrued interest, taxes and other expenses	**123,654,733**	(66,285,144)	20,497,813
Other liabilities	**(20,882,075)**	(8,100,984)	(14,704,183)
Net cash generated from (used in) operations	**3,557,623,944**	(1,082,670,058)	(1,992,743,807)
Income taxes paid	**(249,004,094)**	(274,371,253)	(288,144,243)
Net cash provided by (used in) operating activities	**3,308,619,850**	(1,357,041,311)	(2,280,888,050)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Interbank loans receivable (Notes 7 and 31)	–	(43,840,000)	–
Available-for-sale investments	**(26,697,370,076)**	(53,682,379,284)	(20,747,270,373)
Property and equipment (Note 11)	**(37,375,416)**	(19,781,161)	(24,243,456)
Investment properties (Notes 12 and 31)	**(3,291,223)**	(7,706,251)	(2,991,637)
Software cost (Note 13)	**(4,587,247)**	(5,714,646)	(10,333,778)
Proceeds from:			
Sale of available-for-sale investments	**26,748,012,437**	55,150,135,926	23,101,735,659
Disposals of property and equipment (Note 11)	**3,368,048**	4,884,817	5,578,835
Disposals of investment properties (Note 12)	**141,604,008**	194,446,717	433,197,254
Dividends received from associate (Note 10)	–	600,000	–
Disposal of chattel mortgage	–	–	36,356,692
Net cash provided by investing activities	**150,360,531**	1,590,646,118	2,792,029,196

(Forward)

	Years Ended December 31		
	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from deposit for future stock subscription (Note 20)	**₱2,373,032,602**	₱–	₱–
Availments of:			
Bills payable	**15,076,554,633**	18,506,795,761	22,954,508,834
Outstanding acceptances	**1,049,319,401**	308,926,371	196,366,683
Marginal deposits	**14,504,421**	11,757,708	–
Settlements of:			
Bills payable	**(15,630,909,727)**	(19,145,331,330)	(23,369,945,419)
Outstanding acceptances	**(1,045,495,256)**	(296,378,731)	(187,139,075)
Marginal deposits	**(18,721,871)**	(7,540,258)	–
Net cash provided by (used in) financing activities	**1,818,284,203**	(621,770,479)	(406,208,977)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**(47,450,153)**	22,682,635	(3,380,923)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,229,814,431**	(365,483,037)	101,551,246
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**379,603,692**	395,600,974	420,581,642
Due from Bangko Sentral ng Pilipinas	**2,439,553,972**	2,082,639,243	3,185,217,301
Due from other banks	**556,586,784**	578,317,738	1,139,319,473
Interbank loans receivable and securities purchased under resale agreements (Notes 7 and 31)	**1,105,442,177**	1,790,111,707	–
	4,481,186,625	4,846,669,662	4,745,118,416
CASH AND CASH EQUIVALENTS AT END 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 31)	**2,786,242,240**	1,105,442,177	1,790,111,707
	₱9,711,001,056	₱4,481,186,625	₱4,846,669,662

OPERATIONAL CASH FLOWS FROM INTEREST

	Years Ended December 31		
	2011	2010	2009
Interest received	**₱1,492,675,497**	₱2,204,873,923	₱2,373,863,455
Interest paid	**944,847,047**	1,061,612,561	1,430,138,524

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. It was incorporated on August 23, 1939 and received the authority 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 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.

Rehabilitation Plan

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 therof to be covered by additional capital infusion from the major stockholders;
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.

Proceeds from the PDIC loan amounting to ₱7.64 billion were used by the Bank to purchase government securities, 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 is the difference between the net book value of the NPAs and the proceeds from such sale (Note 30).

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.

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 impending rise in SPV write-offs.

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% final tax and 1% interest due to PDIC and (ii) provide continuing income support to the Bank up to March 2014 as originally intended under the 2004 FAA;
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 maturity 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;
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, upon written request of the Bank may allow release of excess collateral;
7. Any yield (including the gain as a result of the substitution) on the substitute government securities in excess of the cap 85% 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 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.

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 ₱0.4 billion to be paid in February 2012.

The accompanying comparative financial statements were authorized for issue by the BOD of the Bank on Febuary 22, 2012.

2. Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for derivatives 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).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS adopted as of January 1, 2011, which did not have any impact on the accounting policies, financial position or performance of the Bank:

New and amended standards and interpretations

- PAS 24, *Related Party Disclosures* (Amendment)
- PAS 32, *Financial Instruments: Presentation* (Amendment)
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes (determining the fair value of award credits)*
- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (Amendment)

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Improvements to PFRSs 2010
- PFRS 3, *Business Combination*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34*, Interim Financial Statements*

Further, effective January 1, 2011, the Bank changed the measurement policy of its investment properties from the cost model to the fair value model.

Under the cost model, investment properties are valued at cost upon acquisition and are subsequently valued at cost less depreciation. In accordance with the fair value method, the Bank will value its investment properties at their fair values at statement of financial position date and the related changes in fair values of their properties will be recognized in the statement of income. The Bank believes that using the fair value method will improve presentation of assets in the statement of financial position.

Under PFRS, the change in measurement policy is accounted for on a retroactive basis and resulted in decrease in deficit of ₱428.59 million as of January 1, 2009 and increase in net income of ₱187.51 million and ₱214.54 million in 2010 and 2009, respectively (refer to Note 30).

Significant Accounting Policies

Foreign Currency Translation

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 Bank's 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 PDS WAR 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 the 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.

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, 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.

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.

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, 2011 and 2010, 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, 2011 and 2010, the Bank has no financial instruments designated at FVPL.

Derivative instruments
The Bank uses derivative instruments such as currency forward contracts. These derivatives are entered into as a means of reducing or managing their respective foreign exchange exposures. 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, 2011 and 2010, 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. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or designated as AFS investments.

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.

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

- the rights to receive cash flows from the asset have expired;
- the 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.

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.

Impairment of Financial Assets
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.

<u>Offsetting Financial Instruments</u>
Financial instruments are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

Any increase in the liability relating to financial guarantees is charged against the statement of income in 'Miscellaneous expense'. Any financial guarantee liability remaining is recognized under 'Service charges, fees and commissions' in the statement of income, when the guarantee is discharged, cancelled or has expired.

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, 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
Furniture, fixtures and equipment	5
Leasehold improvements	20

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 reporting 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 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.

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.

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 on leased premises is accounted for on a straight-line basis over the lease terms on ongoing leases.

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.

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.

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.

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, 2011, 2010 and 2009, 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 stockholders' 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.

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

PAS 12, *Income Taxes* (Amendment) - *Deferred Tax: Recovery of Underlying Assets*
The amended standard is effective for annual periods beginning on or after January 1, 2012. The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

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

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

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

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*
These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the 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.

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

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

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

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

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, impairment, hedge accounting and derecognition will be addressed. The completion of this project is expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture of the impact on the financial condition of the Bank.

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.

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 Involvement with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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

Philippine Interpretation IFRIC-15, *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 Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

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*
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) *HTM investments*
The Bank classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

d) *Financial assets not quoted in an active market*
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.

e) *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).

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

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

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

<u>Estimates</u>
a) *Credit losses on loans and receivables*
The Bank reviews its loans and receivables at each reporting 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.

b) *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.

c) *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, 2011 and 2010, 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.

d) *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.

e) *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.

f) *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.

g) *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.

h) *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 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.

i) *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, 2011 and 2010, except for the following financial instruments, the carrying values of Bank's financial assets and liabilities as reflected in the statements of financial position and related notes approximate their respective fair values as of the statements of financial position date (amounts in thousands):

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Receivables from customers:				
Corporate loans	**₱6,454,263**	**₱7,035,459**	₱6,986,539	₱7,217,788
Consumer loans	**88,491**	**84,537**	95,935	98,813
Unquoted debt securities	**3,023,976**	**3,356,151**	5,618,541	6,105,771
Financial Liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time	**20,509,819**	**20,498,073**	22,434,211	22,499,069
Bills payable:				
PDIC	**5,929,352**	**7,378,029**	5,306,067	6,623,062

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

Financial assets at FVPL
Fair values are estimated based on quoted market prices provided by independent parties or accepted valuation models (either based on discounted cash flow techniques or option pricing models, as applicable).

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 markets.

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.

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 and floating rate placements.

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 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.

<u>Financial liabilities at amortized cost</u>
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 toTreasurer 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, 2011 and 2010, the Bank held the following financial instruments measured at fair value based on Level 1 inputs (amounts in thousands):

	2011	2010 (As restated - Note 30)
AFS investments:		
Government securities	**₱16,108,354**	₱15,981,801
Quoted equity securities	**23,130**	22,816
	₱16,131,484	₱16,004,617

As of December 31, 2011 and 2011, derivative assets amounting to ₱0.65 million and ₱1.88 million, respectively are measured at fair value based on Level 2 inputs.

As of December 31, 2011 and 2010, the Bank has no financial instruments carried at fair value which are measured based on Level 3. There were no transfers between levels in 2011 and 2010.

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 directly reporting to the RMC. It is the responsibility of the group 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 Group
The Treasury Group 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 semi-annual basis.

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 Analysis Unit under the Office of the Corporate Banking Group Head/Senior Credit Officer, 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 Credit Policy Committee 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 use 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 Credit Policy and Review Group.

Maximum exposure to credit risk
The table below provides the analysis of the maximum exposure to credit risk of the Bank's financial instruments, 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):

	2011		
	Carrying amount	**Fair value of collateral**	**Maximum exposure to credit risk**
Credit risk exposure relating to on-balance sheet items are as follows:			
Loans and receivables:			
Receivables from customers:			
Corporate loans	**₱6,454,263**	**₱1,751,818**	**₱4,702,445**
Consumer loans	**88,491**	**42,022**	**46,469**
Sub-total	**6,542,754**	**1,793,840**	**4,748,914**
Unquoted debt securities classified as loans	**3,023,976**	**–**	**3,023,976**
Accounts receivable	**486,288**	**–**	**486,288**
Accrued interest receivable	**326,687**	**–**	**326,687**
Sales contracts receivable	**141,833**	**141,833**	**–**
	₱10,521,538	**₱1,935,673**	**₱8,585,865**

	2010		
	Carrying amount	Fair value of collateral	Maximum exposure to credit risk
Credit risk exposure relating to on-balance sheet items are as follows:			
Loans and receivables:			
Receivables from customers:			
Corporate loans	₱6,986,539	₱1,767,613	₱5,218,926
Consumer loans	95,935	32,028	63,907
Sub-total	7,082,474	1,799,641	5,282,833
Unquoted debt securities	5,618,541	–	5,618,541
Accrued interest receivable	309,918	–	309,918
Accounts receivable	62,327	–	62,327
Sales contracts receivable	112,088	112,088	–
	₱13,185,348	₱1,911,729	₱11,273,619

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

	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**	**5,072**	**1,303,707**
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**	**668,195**	**39,414,092**
Less allowance for credit and impairment losses	**2,688,857**	**–**	**6,081**	**–**	**2,694,938**
	₱10,521,538	**₱9,385,677**	**₱16,143,744**	**₱668,195**	**₱36,719,154**

* 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, 2010 (As restated - Note 30)				
	Loans and receivables	Loans and advances to banks*	AFS investments	Others**	Total
Government	₱4,331,111	₱2,439,554	₱15,981,801	₱–	₱22,752,466
Wholesale and retail trade	3,594,252	–	–	523,000	4,117,252
Manufacturing	2,983,436	–	–	153,076	3,136,512
Transportation, storage, communication	2,379,397	–	–	–	2,379,397
Construction and real estate	903,338	–	–	–	903,338
Banks and financial institutions	296,449	1,705,869	18,364	13,617	2,034,299
Others	1,373,219	–	22,816	44,018	1,440,053
	15,861,202	4,145,423	16,022,981	733,711	₱36,763,317
Less allowance for credit and impairment losses	2,675,854	–	6,104	–	2,681,958
	₱13,185,348	₱4,145,423	₱16,016,877	₱733,711	₱34,081,359

* 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:

- securities lending and reverse repurchase transactions: cash or securities
- commercial lending: mortgages over real estate properties, machineries, inventory and trade receivables
- 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 loans and receivables in 2011, 2010 and 2009 and which remain outstanding as of December 31, 2011, 2010 and 2009 amounted to ₱4.81 million, ₱29.08 million and nil, respectively.

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 follows (*local banks*):

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 - 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 ₱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, 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 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 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, 2011						
	Neither Past Due nor Impaired				Past Due	Past	
	High Grade	Standard Grade	Substandard Grade	Unrated*	but Not Impaired	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
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
Accrued interest receivable	13,777	–	–	310,515	–	499,556	823,848
Accounts receivable	13,777	29,251	34,822	425,908	–	353,613	857,371
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

	December 31, 2010						
	Neither Past Due nor Impaired				Past Due but Not Impaired	Past Due or Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated*			
Due from BSP	₱–	₱–	₱–	₱2,439,554	₱–	₱–	₱2,439,554
Due from other banks	83,497	100,459	4,637	–	–	–	188,593
	83,497	100,459	4,637	2,439,554	–	–	2,628,147
AFS investments:							
Equity securities							
Quoted	–	–	–	22,816	–	–	22,816
Unquoted	–	–	–	11,307	–	7,057	18,364
	–	–	–	34,123	–	7,057	41,180
Loans and receivables:							
Receivables from customers:							
Corporate	5,148,099	1,482,744	353,827	–	93,765	1,459,394	8,537,829
Consumer	89,566	517	352	–	9,266	235,708	335,409
Unquoted debt securities	163,000	–	–	5,455,541	–	–	5,618,541
Accrued interest receivable	304,739	3,799	1,380	–	–	503,741	813,659
Accounts receivable	12,218	6,275	28,414	–	–	396,769	443,676
Sales contracts receivable	93,146	–	–	–	18,942	–	112,088
RCOCI	13,617	–	–	–	–	–	13,617
Refundable security deposits	–	–	–	15,714	–	–	15,714
	5,824,385	1,493,335	383,973	5,471,255	121,973	2,595,612	15,890,533
Total	₱5,907,882	₱1,593,794	₱388,610	₱7,944,932	₱121,973	₱2,602,669	₱18,559,860

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

	AA	A	BBB and below	Total
Due from other banks	₱367,994	₱–	₱–	₱367,994
Interbank loans receivable	688,962	460,320	–	1,149,282
Derivative asset	–	1,882	–	1,882
AFS investments				
Government securities	–	–	15,981,801	15,981,801
	₱1,056,956	₱462,202	₱15,981,801	₱17,500,959

As of December 31, 2011, 2010 and 2009, restructured loans by the Bank which are neither past due nor impaired are as follows:

	2011	2010
Receivable from customers:		
Corporate	**₱331,665,941**	₱62,114,140
Consumer	**1,236,421**	79,773

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 analyses of past due but not impaired financial assets are shown below (amounts in thousands):

	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**

	December 31, 2010					
	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	₱11,016	₱–	₱723	₱2,586	₱79,440	₱93,765
Consumer loans	382	573	650	123	7,538	9,266
Sales contract receivable	–	–	–	5,105	13,837	18,942
	₱11,398	₱573	₱1,373	₱7,814	₱100,815	₱121,973

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 8.00% 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, 2011 and 2010 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, 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**
Equity securities:						
Quoted	**–**	**–**	**–**	**–**	**23**	**23**
Unquoted	**–**	**–**	**–**	**–**	**12**	**12**
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**

(forward)

	December 31, 2011					
	On demand	**Less than 3 months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Receivables from customers:						
Corporate	**₱–**	**₱4,741**	**₱1,732**	**₱272**	**₱1,525**	**₱8,270**
Consumer	**118**	**35**	**37**	**138**	**12**	**340**
Unquoted debt securities	–	–	**8**	**1,070**	**4,207**	**5,285**
Accounts receivable	**432**	–	–	–	**426**	**858**
Accrued interest receivable	**351**	–	–	–	**473**	**824**
Sales contracts receivable	–	**4**	**14**	**55**	**155**	**228**
RCOCI	**5**	–	–	–	–	**5**
Total financial assets	**₱5,185**	**₱10,092**	**₱2,723**	**₱11,521**	**₱17,304**	**₱46,825**
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**	**7,630**	–	**7,706**
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**	**₱8,152**	**₱76**	**₱37,425**

*Including nonperforming loans and receivables

	December 31, 2010 (As restated - Note 30)					
	On demand	Less than 3 months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial Assets						
AFS investments:						
Government securities	₱–	₱254	₱752	₱2,741	₱17,938	₱21,685
Equity securities:						
Quoted	–	–	–	–	23	23
Unquoted	–	–	–	–	12	12
Loans and receivables:						
Due from BSP	2,440	–	–	–	–	2,440
Due from other banks	557	–	–	–	–	557
Interbank loans receivable and SPURA	–	1,105	44	–	–	1,149
Receivables from customers:						
Corporate	1,297	4,706	1,993	91	766	8,853
Consumer	245	4	13	30	75	367
Unquoted debt securities	–	–	3,008	1,220	4,218	8,446
Accounts receivable	70	–	–	–	373	443
Accrued interest receivable	341	–	–	–	473	814
Sales contracts receivable	–	3	11	131	98	243
RCOCI	14	–	–	–	–	14
Refunadable security deposits	–	–	–	–	16	16
Total financial assets	₱4,964	₱6,072	₱5,821	₱4,213	₱23,992	₱45,062

	December 31, 2010 (As restated - Note 30)					
	On demand	Less than 3 months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial Liabilities						
Deposit liabilities						
Demand	₱4,488	₱–	₱–	₱–	₱–	₱4,488
Savings	2,375	–	–	–	–	2,375
Time	259	19,980	463	16	27	20,745
Bills payable						
PDIC	–	19	57	153	7,661	7,890
Banks and other financial institutions	–	1,700	–	–	–	1,700
Private firms and individuals	–	16	47	1,577	–	1,640
Outstanding acceptances	53	–	–	–	–	53
Manager's checks	34	–	–	–	–	34
Accrued interest payable	72	–	–	–	–	72
Accrued other expense	67	–	–	–	–	67
Other liabilities:						
Accounts payable	103	–	–	–	–	103
Marginal deposits	–	4	–	–	–	4
Refundable security deposits	–	–	–	–	87	87
Due to the Treasurer of the Philippines	–	12	–	–	–	12
Total financial liabilities	₱7,451	₱21,731	₱567	₱1,746	₱7,775	₱39,270

*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, 2011 and 2010 (amounts in thousands):

	December 31, 2011			
	On demand	**Less than 3 months**	**3 to 12 months**	**Total**
Unused Commercial LC:				
Standby LC	**₱267,287**	**₱16,311**	**₱184,491**	**₱468,089**
Sight import LC outstanding	**14,835**	**85,867**	**17,446**	**118,148**
Usance import LC outstanding	**5,824**	**28,730**	**–**	**34,554**
Domestic LC outstanding	**4,121**	**9,459**	**3,000**	**16,580**
Outstanding shipping guarantees	**–**	**–**	**10,429**	**10,429**
Unused loan commitments	**–**	**–**	**–**	**–**
	₱292,067	**₱140,367**	**₱215,366**	**₱647,800**

	December 31, 2010			
	On demand	Less than 3 months	3 to 12 months	Total
Unused Commercial LC:				
Standby LC	₱15,000	₱141,804	₱241,538	₱398,342
Sight import LC outstanding	7,130	129,198	10,417	146,745
Domestic LC outstanding	51,237	47,124	–	98,361
Usance import LC outstanding	5,066	8,921	–	13,987
Outstanding shipping guarantees	–	2,419	43,526	45,945
Unused loan commitments	–	–	1,000	1,000
	₱78,433	₱329,466	₱296,481	₱704,380

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 2011 and only one recorded breach in the VaR limit during 2010 (due to high market volatility).

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)**
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**

	Interest Rate	
	USD ROP (In USD MM)	Peso GS (In Peso MM)
2010-31 December	2.414	74.399
2010-Average Daily	2.312	72.746
2010-Highest	3.405	116.789
2010-Lowest	0.774	41.230

	Interest Rate	
	USD ROP (In USD MM)	Peso GS (In Peso MM)
2009-31 December	3.045	86.537
2009-Average Daily	5.305	252.825
2009-Highest	7.366	383.305
2009-Lowest	2.304	76.112

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 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, 2011 and 2010, 85.13% and 87.72%, 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, 2011 and 2010 accounted for 17.56% and 16.26%, 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 8.71% and 73.73%%, respectively, of total deposits as of December 31, 2011 and 8.60% and 75.14%, respectively, of total deposits as of December 31, 2010 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, 2011 and 2010:

	2011			2010		
	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	**0.47%**	–	–	0.82%	–	–
AFS investments	**5.75%**	–	**7.01%**	5.75	–	6.06%
Interbank loans	**4.50%**	–	–	–	–	–
Loans and receivables	**12.60%**	**8.65%**	**9.46%**	12.99%	11.91%	10.28%
Liabilities						
Deposit liabilities	**3.31%**	**3.11%**	–	1.34%	3.39%	8.35%
Bills payable	**4.49%**	–	**1.00%**	3.44%	–	1.00%
Foreign Currency-Denominated						
Assets						
Due from banks	**0.18%**	–	–	0.29%	–	–
Interbank loans	**0.08%**	**0.60%**	–	0.18%	0.50%	–
AFS investments	–	–	**7.55%**	–	–	7.38%
Loans and receivables	**6.62%**	**7.09%**	**6.50%**	7.91%	8.14%	6.50%
Liabilities						
Deposit liabilities	**2.04%**	**2.07%**	–	1.40%	2.00%	–
Bills payable	**0.01%**	**0.01%**	–	–	–	1.16%

The method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of interest rates on the accrual portfolio, i.e., the risk exposure of future accounting income. The repricing gap is calculated by distributing the statement of financial position 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, 2011 and 2010 (amounts in millions):

	December 31, 2011					
	Up to 1 month	**more than 1 month to 3 months**	**more than3 to 12 months**	**more than 1 year but less than two years**	**beyond two years**	**Greater than 1 year**
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	**2,857**	**3,163**	**1,707**	**615**	–	**8,342**
Total assets	**12,243**	**3,188**	**1,827**	**8,315**	**8,263**	**33,836**
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	**(₱291)**	**(₱3,959)**	**(₱7,046)**	**₱7,846**	**₱2,113**	**(₱1,337)**

	December 31, 2010 (as restated - Note 30)					
	Up to 1 month	more than 1 month to 3 months	more than3 to 12 months	more than 1 year but less than two years	beyond two years	Greater than 1 year
Assets						
Due from BSP	₱2,440	₱–	₱–	₱–	₱–	₱2,440
Due from other banks	557	–	–	–	–	557
Interbank loan receivables and SPURA	1,105	–	44	–	–	1,149
AFS investments	25	–	–	–	15,957	15,982
Loans and receivables	11	4,711	1,897	2,370	–	8,989
Total assets	4,138	4,711	1,941	2,370	15,957	29,117
Liabilities						
Deposit liabilities	6,863	20,241	462	15	27	27,608
Bills payable	–	1,695	–	291	5,300	7,286
Total liabilities	6,863	21,936	462	306	5,327	34,894
Asset-liability gap	(₱2,725)	(₱17,225)	₱1,479	₱2,064	₱10,630	(₱5,777)

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 statement of income.

	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	**(₱4,263)**	**₱4,263**	**(₱8,527)**	**₱8,527**

	2010			
	Changes in interest rates (in basis points)			
Changes in interest rates (in basis points)	+50	-50	+100	-100
Change in annualized net interest income	(₱6,596)	₱6,596	(₱13,192)	₱13,192

As of December 31, 2011 and 2010, there is no other impact on the Bank's OCI other than those already affecting the 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, 2011 and 2010. 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).

	2011			2010		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
Loans and receivables:						
Due from other banks	**₱47,784**	**₱23,529**	**₱71,313**	₱90,992	₱36,660	₱127,652
Corporate loans	**180,461**	**396**	**180,857**	437,286	–	437,286
Accrued interest receivable	**530**	–	**530**	831	–	831
Accounts receivable	**190**	–	**190**	190	–	190
Other assets	**123**	**67**	**190**	313	241	554
Total assets	**229,088**	**23,992**	**253,080**	529,612	36,901	566,513
Liabilities						
Deposit liabilities:						
Savings	–	**5,459**	**5,459**	–	6,250	6,250
Time	–	**5,317**	**5,317**	–	5,046	5,046
Outstanding acceptances	**56,611**	**396**	**57,007**	53,182	–	53,182
Other liabilities:						
Accounts payable	**3**	–	**3**	1	–	1
Others	**33**	**1**	**34**	3,477	4	3,481
Total liabilities	**56,647**	**11,173**	**67,820**	56,660	11,300	67,960
Net exposure	**₱172,441**	**₱12,819**	**₱185,260**	₱472,952	₱25,601	₱498,553

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.

	2011			
	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)**

	2010			
	Changes in foreign exchange rates			
Changes in foreign exchange rates	+3.00%	-3.00%	+4.00%	-4.00%
Change in annualized net income	₱18,667	(₱18,667)	₱24,902	(₱24,902)

As of December 31, 2011 and 2010, 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 2011, 2010, and 2009.

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 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, 2011, 2010 and 2009 (amounts in thousands):

	2011						
	Consumer Banking	Corporate Banking	Treasury	Unallocated	RAP	Elimination and Adjustments	PFRS
Segment Revenue							
Third party	**₱528,843**	**₱172,213**	**₱373,585**	**₱23,492**	**₱1,098,133**	**(₱14,117)**	**₱1,084,016**
Income support	–	–	**608,226**	–	**608,226**	–	**608,226**
Intersegment	–	–	–	–	–	–	–
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**

	2011						
	Consumer Banking	Corporate Banking	Treasury	Unallocated	RAP	Elimination and Adjustments	PFRS
Segment Results							
Net interest income	₱485,617	₱94,618	₱754,575	₱16,300	₱1,351,110	(₱14,117)	₱1,336,993
Service charges, fees, and commissions	43,226	77,595	38	6,814	127,673	–	127,673
Trading and securities gain - net	–	–	227,198	378	227,576	–	227,576
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	–	–	738,699	958,784	(6,716)	952,068
Investment properties	–	–	–	2,410,718	2,410,718	1,487,924	3,898,642
Unallocated 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	₱6,706,150	₱15,313,258	₱18,366,422	₱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 (As restated - Note 30)						
	Consumer Banking	Corporate Banking	Treasury	Unallocated	RAP	Elimination and Adjustments	PFRS
Segment Revenue							
Third party	₱621,613	₱174,186	₱684,416	₱164,883	₱1,645,098	₱10,120	₱1,655,218
Income support	–	–	515,354	–	515,354	–	515,354
Intersegment	–	–	–	–	–	–	–
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 (As restated - Note 30)						
	Consumer Banking	Corporate Banking	Treasury	Unallocated	RAP	Elimination and Adjustments	PFRS
Segment Results							
Net interest income	₱558,770	₱110,300	₱693,559	₱155,204	₱1,517,833	(₱12,857)	₱1,504,976
Service charges, fees, and commissions	62,838	63,886	81	8,773	135,578	–	135,578
Trading and securities gain - net	5	–	506,130	906	507,041	22,977	530,018
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	–	–	756,953	1,016,715	(24,372)	992,343
Investment properties	–	–	–	2,704,199	2,704,199	1,080,040	3,784,239
Unallocated 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	₱6,843,797	₱12,980,401	₱19,600,152	₱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

	2009 (As restated - Note 30)						
	Consumer Banking	Corporate Banking	Treasury	Unallocated	RAP	Elimination and Adjustments	PFRS
Segment Revenue							
Third party	₱705,454	₱199,819	₱332,212	(₱161,107)	₱1,076,378	₱16,789	₱1,093,167
Income support	–	–	480,158	–	480,158	–	480,158
Intersegment	–	–	–	–	–	–	–
Total revenue	705,454	199,819	812,370	(161,107)	1,556,536	16,789	1,573,325
Other operating income	38,013	(10,517)	(631)	541,377	568,242	7,810	576,052
Total operating income	743,467	189,302	811,739	380,270	2,124,778	24,599	2,149,377
Compensation and fringe benefits	223,494	38,811	26,559	282,376	571,240	44,805	616,045
Provision for credit and impairment losses - net	–	–	–	212,136	212,136	166,420	378,556
Taxes and licenses	96,798	41,173	104,746	80,125	322,842	(9,528)	313,314
Depreciation and amortization	31,956	3,420	1,846	120,689	157,911	(66,037)	91,874
Occupancy and equipment-related costs	93,822	1,721	1,138	(39,734)	56,947	883	57,830
Other operating expenses	125,439	3,335	21,998	1,313,581	1,464,353	(1,331,311)	133,042
Net operating income (loss)	₱171,958	₱100,842	₱655,452	(₱1,588,903)	(₱660,651)	₱1,219,367	₱558,716

(Forward)

	2009 (As restated - Note 30)						
	Consumer Banking	Corporate Banking	Treasury	Unallocated	RAP	Elimination and Adjustments	PFRS
Segment Results							
Net interest income	₱637,918	₱126,061	₱693,519	(₱168,149)	₱1,289,349	₱16,792	₱1,306,141
Service charges, fees, and commissions	67,147	73,758	54	7,039	147,998	1	147,999
Trading and securities gain - net	389	–	118,797	3	119,189	(4)	119,185
Total revenue	705,454	199,819	812,370	(161,107)	1,556,536	16,789	1,573,325
Rent income	–	–	–	308,390	308,390	(1,916)	306,474
Other operating income (loss)	38,013	(10,517)	(631)	232,987	259,852	9,726	269,578
Total operating income	743,467	189,302	811,739	380,270	2,124,778	24,599	2,149,377
Compensation and fringe benefits	223,494	38,811	26,559	282,376	571,240	44,805	616,045
Provision for credit and impairment losses	–	–	–	212,136	212,136	166,420	378,556
Depreciation and amortization	31,956	3,420	1,846	120,689	157,911	(66,037)	91,874
Taxes and licenses	96,798	41,173	104,746	80,125	322,842	(9,528)	313,314
Occupancy and other equipment-related costs	93,822	1,721	1,138	(39,734)	56,947	883	57,830
Other operating expenses	125,439	3,335	21,998	1,313,581	1,464,353	(1,331,311)	133,042
Segment profit (loss)	171,958	100,842	655,452	(1,588,903)	(660,651)	1,219,367	558,716
Provision for income tax	28,568	1,077	16,466	241,881	287,992	(45,993)	241,999
Net income (loss)	₱143,390	₱99,765	₱638,986	(₱1,830,784)	(₱948,643)	₱1,265,360	₱316,717
Segment Assets							
Investment in an associate	₱–	₱–	₱–	₱11,612	₱11,612	₱30	₱11,642
Property and equipment	276,223	–	–	781,762	1,057,985	(135,291)	922,694
Investment properties	–	–	–	2,979,841	2,979,841	981,796	3,961,637
Unallocated assets	4,698,324	6,821,012	11,120,625	19,947,825	42,587,786	(9,904,058)	32,683,728
Total segment assets	₱4,974,547	₱6,821,012	₱11,120,625	₱23,721,040	₱46,637,224	(₱9,057,523)	₱37,579,701
Total segment liabilities	₱26,939,373	₱440,268	₱3,931,008	₱9,843,676	₱41,154,325	(₱1,315,760)	₱39,838,565

Net operating loss after tax reported to the CODM which is based on RAP amounted to ₱344.32 million, ₱453.43 million and ₱948.64 million in 2011, 2010 and 2009, respectively. The difference in the net operating loss based on RAP and PFRS primarily represents the annual amortization of SPV losses 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:

	2011	2010
SPURA	**₱2,300,000,000**	₱–
Interbank loans receivable	**530,082,240**	1,149,282,177
	₱2,830,082,240	₱1,149,282,177

As of December 31, 2011 and 2010, interbank loans receivable comprise of USD-denominated loans amounting to $12.09 (₱530.08) million and $25.22 (₱1,105.64) million, respectively. As of December 31, 2011 and 2010, interbank loans receivable also includes placement with a local bank amounting to $1.00 (₱43.84) million carrying a term of six months and one year, respectively.

Interest income on interbank loans receivable and SPURA follows:

	2011	2010	2009
SPURA	**₱41,086,111**	₱23,244,445	₱15,864,583
Interbank loans receivable	**608,147**	694,976	159,520
	₱41,694,258	₱23,939,421	₱16,024,103

Interbank loans receivable bears nominal annual interest rate ranging from 0.10% to 0.29% in 2011, from 0.15% to 0.50% in 2010 and from 0.15% to 0.26% in 2009, while SPURA bears nominal annual interest rates ranging from 4.00% to 4.70% in 2011, from 3.50% to 4.75% in 2010 and from 4.00% to 5.25% in 2009.

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:

	2011	2010 (As restated - Note 30)	2009
Quoted:			
Government securities (Notes 22 and 30)	**₱16,108,354,217**	₱15,981,801,123	₱7,191,550,730
Equity securities	**23,130,000**	22,815,823	19,750,000
	16,131,484,217	16,004,616,946	7,211,300,730
Unquoted:			
Equity securities at cost	**18,341,372**	18,364,312	18,260,922
Less allowance for impairment losses (Note 14)	**6,081,040**	6,103,980	6,000,590
	12,260,332	12,260,332	12,260,332
	₱16,143,744,549	₱16,016,877,278	₱7,223,561,062

Included in the quoted government securities are government securities amounting to ₱7.64 billion which are pledged as collateral to PDIC to secure loans under the FAA (Note 1).

On September 29, 2011, the Bank requested for the substitution of the government securities currently being used 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 initial tranche of new pledge amounting to ₱2.00 billion. As of February 22, 2012, total substituted government securities sold amounted to ₱100.00 million while gain recognized from these sale amounted to ₱19.30 million.

As of December 31, 2011 and 2010, net unrealized gains on AFS investments amounted to ₱1.72 billion and ₱1.77 billion, respectively.

The movements in net unrealized gains (losses) on AFS investments follow:

	2011	2010 (As restated - Note 30)	2009
Balance at beginning of year	**₱1,765,820,381**	(₱176,986,021)	(₱604,044,742)
Changes in fair value of AFS investments	**177,509,632**	655,373,667	542,472,300
Securities gains from sale of AFS investments taken to profit or loss (Note 23)	**(220,166,698)**	(500,900,079)	(115,413,579)
Fair value gain on securities reclassified from HTM to AFS (Note 30)	**–**	1,788,332,814	–
	(42,657,066)	1,942,806,402	427,058,721
Balance at end of year	**₱1,723,163,315**	₱1,765,820,381	(₱176,986,021)

Reclassification
On July 1, 2008, the Bank identified financial assets amounting to ₱164.63 million 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 (and subsequently to AFS investments, see Note 30) under rare circumstance. As of December 31, 2011 and 2010, the carrying value of the outstanding security reclassified out of financial assets at FVPL amounted to ₱58.69 million and ₱54.17 million, respectively.

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, 2011 and 2010.

Had the above security not been reclassified out of financial assets at FVPL, market gains of ₱8.79 million and ₱15.85 million would have been credited to the statements of income in 2011 and 2010, respectively.

9. Loans and Receivables

This account consists of:

	2011	2010
Receivables from customers:		
Corporate loans	**₱8,008,975,930**	₱8,542,070,334
Consumer loans	**332,401,818**	335,427,356
	8,341,377,748	8,877,497,690
Unearned discounts and capitalized interest	**(9,988,548)**	(4,259,123)
	8,331,389,200	8,873,238,567
Unquoted debt securities (Notes 15 and 16)	**3,054,521,471**	5,618,540,651
Accounts receivable	**857,370,037**	443,676,055
Accrued interest receivable	**823,848,262**	813,659,249
Sales contracts receivable	**143,266,302**	112,087,736
	13,210,395,272	15,861,202,258
Less allowance for credit losses (Note 14)	**2,688,856,839**	2,675,854,432
	₱10,521,538,433	₱13,185,347,826

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, 2011 and 2010, NPLs not fully covered by allowance for credit losses follow:

	2011	2010
NPLs	**₱1,268,855,361**	₱1,531,100,040
Less NPLs fully provided with allowance for credit losses	**782,157,122**	790,959,271
	₱486,698,239	₱740,140,769

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):

	2011		2010	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**₱1,225,128**	**14.69**	₱1,125,572	12.68
Deposit hold-out	**506,712**	**6.07**	475,484	5.36
Securities and others	**307,760**	**3.69**	403,108	4.54
Chattel	**81,442**	**0.98**	100,411	1.13
Secured	**2,121,042**	**25.43**	2,104,575	23.71
Unsecured loans	**6,220,336**	**74.57**	6,772,923	76.29
	₱8,341,378	**100.00**	₱8,877,498	100.00

As of December 31, 2011 and 2010, 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):

	2011		2010	
	Amount	**%**	Amount	%
Manufacturing	**₱3,303,389**	**25.01**	₱2,983,436	18.81
Wholesale and retail trade	**3,029,528**	**22.93**	3,594,252	22.66
Transportation, storage and communications	**2,422,222**	**18.34**	2,379,397	15.00
Government	**1,989,375**	**15.06**	4,331,111	27.31
Construction and real estate	**890,768**	**6.74**	903,338	5.70
Banks and financial institutions	**235,400**	**1.78**	296,449	1.86
Others	**1,339,713**	**10.14**	1,373,219	8.66
	₱13,210,395	**100.00**	₱15,861,202	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, 2011 and 2010, unquoted debt securities consist of the following:

	2011	2010
Investments in:		
Metro Rail Transit bonds	**₱1,936,108,312**	₱1,724,095,678
Home Guaranty Corporation bonds	**955,413,159**	909,129,973
RFM Corporation bonds	**163,000,000**	163,000,000
Poverty Eradication and Alleviation Certificates (PEACe) bonds	**–**	2,822,315,000
	₱3,054,521,471	₱5,618,540,651

Accounts receivable
Included in Accounts receivable is an amount of ₱425.67 million which represents the tax withheld by the Bureau of Treasury (BTr) from the payment of the face value of the PEACe bonds upon their maturity. 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% 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% 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% 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
b.) prohibit the Respondents from imposing the 20% 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% 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, 2011, the Bank, in consultation with its legal counsel has determined that the said accounts receivable is unimpaired.

Interest Income

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

	2011	2010	2009
Receivables from customers:			
Corporate	**₱505,547,827**	₱630,058,854	₱655,381,522
Consumer	**11,263,032**	15,717,655	13,414,032
Unquoted debt securities	**432,973,001**	466,994,523	434,212,762
Others	**12,795,162**	7,806,615	10,086,537
	₱962,579,022	₱1,120,577,647	₱1,113,094,853

Interest income accreted from impaired loans and receivables amounted to nil in 2011 and 2010 and ₱11.68 million in 2009.

Of the total receivables from customers of the Bank as of December 31, 2011 and 2010, 85.13% and 87.72%, respectively, are subject to periodic interest repricing. Remaining peso-denominated receivables from customers earn annual fixed interest rates ranging from 4.50% to 18.00% in 2011, 6.50% to 18.50% in 2010 and 8.47% to 21.73% in 2009, respectively, while foreign currency-denominated receivables from customers earn annual fixed interest rates of 5.0% to 9.82% in 2011, 5.75% to 8.75% in 2010, and 6.50% to 9.88% in 2009.

Unquoted debt securities have effective interest rates ranging from 4.25% to 11.90% in 2011, 2010 and 2009.

Sales contracts receivable bears interest rate ranging from 8% to 18% in 2011 and 10.00% to 18.00% in 2010 and 2009.

10. Investment in an Associate

This account consists of investment in PBCom Finance as follows:

	2011	2010
Acquisition cost (40.00% owned)	**₱2,000,000**	₱2,000,000
Accumulated equity in net earnings	**9,710,160**	9,299,640
	₱11,710,160	₱11,299,640

Movements in accumulated equity in net earnings follow:

	2011	2010
Balance at beginning of year	**₱9,299,640**	₱9,642,380
Share in net income	**410,520**	257,260
Dividend income	**–**	(600,000)
Balance at end of year	**₱9,710,160**	₱9,299,640

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

The comparative financial information of PBCom Finance follows:

	2011	2010
Statements of financial position		
Total assets	**₱27,040,531**	₱28,809,844
Total liabilities	**602,717**	3,296,294
Net assets	**26,437,814**	25,513,550
Statements of income		
Revenue	**3,713,784**	3,149,919
Net income	**1,026,299**	643,151

11. Property and Equipment

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

	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

	2010				
	Condominium Properties (Note 12)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements - Net	Total
Cost					
Balance at beginning of year	₱521,275,992	₱312,223,146	₱540,413,791	₱39,312,361	₱1,413,225,290
Additions	–	507,730	17,129,927	2,143,504	19,781,161
Disposals	–	–	(48,274,993)	–	(48,274,993)
Amortization	–	–	–	(10,061,148)	(10,061,148)
Transfers (Note 12)	(7,016,973)	–	1,779,777	(1,779,777)	(7,016,973)
Balance at end of year	514,259,019	312,730,876	511,048,502	29,614,940	1,367,653,337
Accumulated Depreciation					
Balance at beginning of year	79,220,058	208,428,738	475,092,879	–	762,741,675
Depreciation	9,510,447	10,701,566	26,278,132	–	46,490,145
Disposals	–	–	(43,390,176)	–	(43,390,176)
Transfers (Note 12)	(1,194,414)	–	–	–	(1,194,414)
Balance at end of year	87,536,091	219,130,304	457,980,835	–	764,647,230
Accumulated Impairment (Note 14)					
Balance at beginning of year	–	9,897,499	530,114	–	10,427,613
Reversals	–	(1,955,069)	–	–	(1,955,069)
Transfers	–	–	(530,114)	–	(530,114)
Balance at end of year	–	7,942,430	–	–	7,942,430
Net book value at end of year	₱426,722,928	₱85,658,142	₱53,067,667	₱29,614,940	₱595,063,677

Details of land at appraised value are as follows:

	2011	2010
Cost		
Balance at beginning and end of year	**₱130,092,688**	₱130,092,688
Appraisal increment		
Balance at beginning of year	**275,017,062**	161,335,906
Additions	**–**	113,681,156
Reversals	**(27,502,000)**	–
Balance at end of year	**247,515,062**	275,017,062
Less allowance for impairment losses (Note 14)	**8,307,750**	7,830,750
	₱369,300,000	₱397,279,000

Depreciation and amortization

Details of this account are as follows:

	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
Property and equipment	**₱50,402,924**	₱56,551,293	₱62,754,532
Software cost (Note 13)	**8,403,727**	19,425,763	18,893,627
Chattel mortgage*	**–**	567,496	10,225,500
	₱58,806,651	₱76,544,552	₱91,873,659

*Chattel mortgage is included under Miscellaneous assets – net and has nil value as of December 31, 2011 and 2010.

12. Investment Properties

The composition of and movements in this account follow:

	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**

	2010 (As restated - Note 30)			
	Foreclosed Properties			
	Land	Building and improvements	Total	Condominium units for lease
Balance at beginning of year	₱687,895,879	₱303,530,778	₱991,426,657	₱2,969,850,147
Additions	17,165,232	12,147,042	29,312,274	7,706,251
Transfers (Note 11)	–	–	–	5,822,559
Disposals	(167,444,004)	(57,533,474)	(224,977,478)	–
Net gain (loss) from fair value adjustments	(41,513,918)	(89,606,297)	(131,120,215)	136,219,043
Balance at end of year	₱496,103,189	₱168,538,049	₱664,641,238	₱3,119,598,000

	2009 (As restated - Note 30)			
	Foreclosed Properties			
	Land	Building and improvements	Total	Condominium units for lease
Balance at beginning of year	₱1,017,819,343	₱414,515,794	₱1,432,335,137	₱2,810,891,790
Additions	1,072,555	–	1,072,555	2,991,637
Disposals	(316,882,619)	(73,956,528)	(390,839,147)	–
Transfers	(71,530,000)	32,737,928	(38,792,072)	–
Net gain (loss) from fair value adjustments	57,416,600	(69,766,416)	(12,349,816)	155,966,720
Balance at end of year	₱687,895,879	₱303,530,778	₱991,426,657	₱2,969,850,147

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:

	2011	2010	2009
Capitalization rate	**9.0%**	9.5%	10%
Vacancy rate	**5.0%**	5.0%	5.0%
Rental growth rate	**7.0%**	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.

About 84.55% 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 ₱281.49 million, ₱296.68 million and ₱300.55 million in 2011, 2010 and 2009, respectively, on condominium properties leased out under operating leases.

In 2011, 2010 and 2009, the Bank recognized gain on foreclosures (presented under 'Profit from asset sold or exchange') amounting to ₱8.27 million, ₱5.04 million, and nil, respectively. In 2009, the Bank recognized gain on sale of foreclosed assets (presented under 'Profit from asset sold or exchange') amounting to ₱42.36 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, 2011, 2010 and 2009 would have been ₱2.51 billion, ₱2.67 billion, and ₱3.09 billion, respectively. Net income in 2011, 2010 and 2009 would have been decreased by ₱158.43 million, ₱187.51 million and ₱214.52 million, respectively.

13. **Other Assets**

This account consists of:

	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
Branch licenses	**₱102,100,153**	₱102,100,153	₱102,100,153
Prepaid expenses	**74,717,185**	55,961,656	72,026,870
RCOCI	**5,071,526**	13,617,013	7,376,187
Software cost	**2,825,568**	6,642,048	20,353,165
Derivative assets (Note 21)	**648,683**	1,881,829	–
Interoffice float items - net	**–**	41,419,080	19,795,985
Miscellaneous - net (Note 30)	**265,061,478**	251,996,390	284,746,259
	450,424,593	473,618,169	506,398,619
Less allowance for impairment losses (Note 14)	**311,934,272**	312,036,491	296,380,074
	₱138,490,321	₱161,581,678	₱210,018,545

Branch licenses
Branch licenses have indefinite lives and are subject to annual impairment testing. Branch licenses are written down for impairment when the net present value of the forecasted future cash flows of each branches are insufficient to support its carrying value. As of December 31, 2011 and 2010, branch licenses have been provided with 100% allowance.

Software cost
The movements of software cost follow:

	2011	2010
Balance at beginning of year	**₱6,642,048**	₱20,353,165
Additions during the year	**4,587,247**	5,714,646
	11,229,295	26,067,811
Amortization during the year (Note 11)	**(8,403,727)**	(19,425,763)
	₱2,825,568	₱6,642,048

Miscellaneous
Refundable security deposits recorded under 'Miscellaneous - net' amounted to ₱15.34 million, ₱15.71 million and ₱14.39 million as of December 31, 2011, 2010 and 2009, respectively.

As of December 31, 2011 and 2010, Miscellaneous – net 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.

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

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

	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
Balance at beginning of year:			
AFS investments (Note 8)	**₱6,104**	₱6,001	₱3,287
Loans and receivables (Note 9)	**2,675,854**	2,499,532	2,135,760
Property and equipment (Note 11)	**15,773**	19,218	21,532
Other assets (Note 13)	**312,036**	296,380	307,167
	3,009,767	2,821,131	2,467,746
Provisions for credit and impairment losses - net of reversals	**10,649**	197,786	378,556
Revaluation of FCDU loans	**(1,229)**	(9,150)	(5,671)
Accounts written off and others	**(40)**	–	(7,822)
Accretion	**–**	–	(11,678)
	9,380	188,636	353,385
Balance at end of year:			
AFS investments (Note 8)	**6,081**	6,104	6,001
Loans and receivables (Note 9)	**2,688,857**	2,675,854	2,499,532
Property and equipment (Note 11)	**12,275**	15,773	19,218
Other assets (Note 13)	**311,934**	312,036	296,380
	₱3,019,147	₱3,009,767	₱2,821,131

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

	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
AFS investments	**₱–**	₱103	₱2,714
Loans and receivables	**14,147**	184,941	369,938
Property and equipment	**(3,498)**	(2,914)	530
Other assets	**–**	15,656	5,374
	₱10,649	₱197,786	₱378,556

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):

	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.

	2010			
	Corporate	Consumer	Others*	Total
Balance at beginning of year	₱1,545,743	₱137,502	₱816,287	₱2,499,532
Provisions during the year	14,696	101,973	68,272	184,941
Revaluation	(9,150)	–	–	(9,150)
Others**	–	–	531	531
Balance at end of year	₱1,551,289	₱239,475	₱885,090	₱2,675,854
Individual impairment	₱1,010,191	₱228,662	₱884,268	₱2,123,121
Collective impairment	541,098	10,813	822	552,733
	₱1,551,289	₱239,475	₱885,090	₱2,675,854
Gross amount of loans individually determined to be impaired	₱1,150,963	₱228,662	₱884,268	₱2,263,893

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

	2009			
	Corporate	Consumer	Others*	Total
Balance at beginning of year	₱1,463,845	₱124,560	₱547,355	₱2,135,760
Provisions during the year	91,786	9,220	268,932	369,938
Accretion	(11,678)	–	–	(11,678)
Revaluation	(5,671)	–	–	(5,671)
Others**	7,461	3,722	–	11,183
Balance at end of year	₱1,545,743	₱137,502	₱816,287	₱2,499,532
Individual impairment	₱1,110,879	₱113,771	₱816,287	₱2,040,937
Collective impairment	434,864	23,731	–	458,595
	₱1,545,743	₱137,502	₱816,287	₱2,499,532
Gross amount of loans individually determined to be impaired	₱1,254,675	₱111,440	₱816,287	₱2,182,402

*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

Under existing BSP regulations, non-FCDU deposit liabilities are subject to liquidity reserve equivalent to 11.00% and statutory reserves equivalent to 10.00% and 8.00% as of December 31, 2011 and 2010, respectively. The Bank is in compliance with such regulation as of December 31, 2011 and 2010.

As of December 31, 2011 and 2010, the following assets were set aside as reserves for deposit liabilities (amounts in thousands):

	2011	2010
Cash and other cash items*	**₱306,545**	₱296,214
Due from BSP*	**5,880,487**	1,704,405
Unquoted debt securities	–	2,313,572
	₱6,187,032	₱4,314,191

*Based on December 29, 2011 and December 30, 2010 balances

Interest expense on deposit liabilities consists of:

	2011	2010	2009
Demand	**₱44,271,797**	₱36,945,059	₱30,324,575
Savings	**16,541,586**	15,608,360	14,954,588
Time	**745,088,393**	824,627,579	1,151,374,225
	₱805,901,776	₱877,180,998	₱1,196,653,388

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.75% to 4.50%, from 0.50% to 4.75% and from 0.75% to 6.00 % in 2011, 2010 and 2009, respectively, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.50% to 2.25%, from 0.50% to 3.00% and from 0.50% to 2.50% in 2011, 2010 and 2009, respectively.

16. **Bills Payable**

This account consists of borrowings from:

	2011	2010
Banks and other financial institutions	**₱6,074,810,113**	₱5,591,411,520
Private firms and individuals	**1,281,036,259**	1,694,738,529
	₱7,355,846,372	₱7,286,150,049

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. Borrowing from PDIC was measured initially at fair value and carried at amortized cost of ₱5.93 billion and ₱5.31 billion, as of December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010, related unamortized day 1 gain on bills payable to PDIC which is presented as unearned income under other liabilities amounted to ₱1.66 billion and ₱2.26 billion, respectively (Note 18).

Interest expense on bills payable and other borrowings consists of:

	2011	2010	2009
Borrowed funds	**₱147,100,510**	₱168,620,157	₱194,157,479
Others	**624,051,417**	551,013,332	486,562,847
	₱771,151,927	₱719,633,489	₱680,720,326

There were no peso interbank borrowings in 2011 and 2010. Dollar interbank borrowings are subject to annual floating interest rates ranging from 0.88% to 0.90% in 2011, from 0.86% to 2.27% in 2010 and from 0.74% to 2.27% in 2009. There were no peso and dollar rediscounting availments in 2011 and 2010.

Borrowings from private firms and individuals represent deposit substitutes with maturities of 30 to 90 days and bear annual interest rates ranging from 3.00% to 5.00%, from 2.50% to 4.38%, and from 3.00% to 4.90%, in 2011, 2010 and 2009, respectively.

As of December 31, 2011 and 2010, the following assets were set aside as reserve for deposit substitutes (amounts in thousands):

	2011	2010
Cash and other cash items*	**₱90,111**	₱102,356
Due from BSP*	**162,199**	34,119
Unquoted debt securities	–	187,653
	₱252,310	₱324,128

*Based on December 29, 2011 and December 30, 2010 balances

17. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2011	2010
Financial		
Accrued interest payable	**₱79,695,593**	₱71,540,354
Accrued other expenses	**111,226,225**	67,118,668
	190,921,818	138,659,022
Nonfinancial		
Retirement liability (Note 24)	**66,336,861**	2,515,407
Accrued taxes and licenses	**17,828,045**	10,256,821
	84,164,906	12,772,228
	₱275,086,724	₱151,431,250

18. Other Liabilities

This account consists of:

	2011	2010 (As restated - Note 30)
Unearned income (Note 16)	**₱1,656,215,538**	₱2,264,441,612
Deferred credits	**87,605,962**	76,640,761
Accounts payable	**62,326,322**	102,583,338
Miscellaneous (Note 21)	**213,802,668**	407,482,240
	₱2,019,950,490	₱2,851,147,951

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 2011, 2010 and 2009, amortization of unearned income amounted to ₱608.23 million, ₱515.35 million and ₱480.16 million, respectively.

Miscellaneous liabilities includes provision for tax assessments, marginal deposit, cash letters of credit, due to treasurer of the Philippines, withholding tax payable, refundable security deposits and deposit liabilities classified as dormant.

In 2011 and 2009, pursuant to the favorable court rulings, the Bank reversed provision for tax assessments amounting to ₱197.87 million and ₱169.66 million, respectively (Note 21).

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):

	2011			2010 (As restated - Note 30)		
	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	**₱369,164**	**₱–**	**₱369,164**	₱379,604	₱–	₱379,604
Due from BSP	**6,040,783**	**–**	**6,040,783**	2,439,554	–	2,439,554
Due from other banks	**514,812**	**–**	**514,812**	556,587	–	556,587
Interbank loans receivable and SPURA	**2,830,082**	**–**	**2,830,082**	1,149,282	–	1,149,282
AFS investments (Note 8)	**124,415**	**16,025,411**	**16,149,826**	–	16,022,981	16,022,981
Loans and receivables (Note 9)						
Receivables from customers	**6,441,046**	**1,900,332**	**8,341,378**	6,617,569	2,259,928	8,877,497
Unquoted debt securities	**–**	**3,054,521**	**3,054,521**	2,822,315	2,796,226	5,618,541
Accrued interest receivable	**351,155**	**472,693**	**823,848**	309,918	503,741	813,659
Accounts receivable	**431,695**	**425,675**	**857,370**	46,907	396,769	443,676
Sales contract receivable	**3,095**	**140,171**	**143,266**	2,234	109,854	112,088
Other assets (Note 10)						
Derivative assets	**649**	**–**	**649**	1,882	–	1,882
Refundable deposits	**–**	**455**	**455**	–	15,714	15,714
RCOCI	**5,072**	**–**	**5,072**	13,617	–	13,617
	17,111,968	**22,019,258**	**39,131,226**	14,339,469	22,105,213	36,444,682
Nonfinancial Assets - at gross						
Property and equipment (Note 11)	**–**	**1,744,676**	**1,744,676**	–	1,772,763	1,772,763
Investment properties (Note 12)						
Condominium units for lease	**–**	**3,466,408**	**3,466,408**	–	3,119,598	3,119,598
Foreclosed assets	**–**	**432,234**	**432,234**	–	664,641	664,641
Investment in an associate (Note 10)	**–**	**11,710**	**11,710**	–	11,300	11,300
Other assets (Note 13)	**–**	**444,250**	**444,250**	–	442,404	442,404
	–	**6,099,278**	**6,099,278**	–	6,010,706	6,010,706
	₱17,111,968	**₱28,118,536**	**45,230,504**	₱14,339,469	₱28,115,919	42,455,388
Less:						
Unearned interest and discounts (Note 9)			**9,989**			4,259
Accumulated depreciation and amortization (Note 11)			**780,334**			764,647
Allowance for credit and impairment losses (Note 14)			**3,019,147**			3,009,767
Total			**₱41,421,034**			₱38,676,715

	2011			2010		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Liabilities						
Deposit liabilities						
Demand	**₱4,883,897**	**₱–**	**₱4,883,897**	₱4,487,872	₱–	₱4,487,872
Savings	**2,424,175**	**–**	**2,424,175**	2,375,465	–	2,375,465
Time	**19,964,715**	**545,104**	**20,509,819**	20,701,890	42,421	20,744,311
Bills payable	**1,368,295**	**5,987,552**	**7,355,847**	1,694,739	5,591,411	7,286,150
Outstanding acceptances	**57,006**	**–**	**57,006**	53,182	–	53,182
Manager's checks	**33,800**	**–**	**33,800**	34,020	–	34,020
Accrued interest payable (Note 17)	**79,696**	**–**	**79,696**	69,553	1,987	71,540
Accrued other expenses (Note 17)	**111,226**	**–**	**111,226**	67,119	–	67,119
Other liabilities (Note 18)						
Accounts payable	**62,326**	**–**	**62,326**	102,583	–	102,583
Miscellaneous	**–**	**–**	**–**	16,434	87,399	103,833
	28,985,136	**6,532,656**	**35,517,792**	29,602,857	5,723,218	35,326,075
Nonfinancial Liability						
Income tax payable	**59**	**–**	**59**	60	–	60
Deferred tax liabilities (Note 27)	**–**	**428,223**	**428,223**	–	319,942	319,942
Retirement liability (Notes 17 and 24)	**66,337**	**–**	**66,337**	–	2,515	2,515
Accrued taxes and licenses (Note 17)	**17,769**	**–**	**17,769**	10,197	–	10,197
Other liabilities:						
Unearned income	**684,923**	**971,293**	**1,656,216**	607,318	1,657,124	2,264,442
Deferred credits	**87,606**	**–**	**87,606**	76,641	–	76,641
Miscellaneous	**–**	**213,803**	**213,803**	–	303,650	303,650
	856,694	**1,613,319**	**2,470,013**	694,216	2,283,231	2,977,447
	₱29,841,830	**₱8,145,975**	**₱37,987,805**	₱30,297,073	₱8,006,449	₱38,303,522

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

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

In the Annual Stockholder's Meeting held on October 15, 2010, the stockholders approved the increase of the Bank's authorized capital stock of up to 100.00% of its present level of ₱17.50 billion under the terms and conditions as may be fixed and approved by the BOD. The said increase in the Bank's authorized capital stock was in preparation for the capital restoration program of the Bank as required by the BSP.

Deposit for future stock subscription
On December 27, 2011, two of the Bank's shareholders entered into a subscription agreement where the latter will subscribe 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 will be submitted for approval of the stockholders at their annual meeting to be held on March 28, 2012.

Surplus reserves
As of December 31, 2011 and 2010, surplus reserves consist of:

	2011	2010
Reserve for trust business	**₱88,654,541**	₱88,654,541
Contingencies	**–**	10,414,548
Self-insurance	**17,117,773**	6,703,225
	₱105,772,314	₱105,772,314

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.

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 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.

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, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

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, 2011 and 2010 are shown in the table below (amounts in millions):

	2011	2010
Tier 1 capital*	**₱4,050.04**	₱4,672.68
Tier 2 capital	**2,644.28**	302.17
Gross qualifying capital	**6,694.22**	4,974.85
Less: Required deductions		
Reduction from tier 1 (50.00%) and tier 2 (50.00%)	**11.71**	11.30
Total qualifying capital	**₱6,682.61**	₱4,963.55
Risk-weighted assets	**₱25,719.69**	₱29,703.11
Tier 1 capital ratio	**15.72%**	15.71%
Total capital ratio	**25.98%**	16.71%

*Amounts include deferred charge of ₱4.78 billion in 2011 and ₱6.12 billion in 2010 representing 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.

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, 2012. The ICAAP which included the discussion on the 2012 Risk Appetite was deliberated upon by the Risk Management Committee and endorsed to the Board of Directors 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:

	2011	2010
Trust department accounts	**₱5,672,863,268**	₱4,329,376,887
Standby LC	**468,089,272**	398,342,400
Spot exchange:		
Sold	**131,890,000**	131,520,000
Bought	**131,840,000**	131,520,000
Sight import LC outstanding	**118,148,434**	146,745,281
Usance import LC outstanding	**34,553,516**	13,986,892
Deficiency claims receivable	**33,984,220**	33,772,866
Domestic LC outstanding	**16,580,165**	98,360,855
Inward bills for collection	**10,722,467**	16,665,050
Outstanding shipping guarantees	**10,428,300**	45,944,734
Late deposits/payment received	**3,918,968**	3,903,427
Outward bills for collection	**3,606,818**	24,690,092
Items held for safekeeping	**8,067**	7,787
Items held as collateral	**2,696**	3,063
Unused loan commitments	**–**	1,000,000
Other contingent	**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.

In 2009, the Bank received a favorable resolution from the Court of Tax Appeals (CTA) on majority of the tax assessments which were rendered as "Final and Executory". On the same year, the related "Entry of Judgment" issued by the CTA were received by the Bank. Accordingly, provisions charged against prior years (included under Miscellaneous Liabilities) amounting to ₱169.66 million were recorded as a reversal of provision for tax assessments (Note 26).

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.

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, 2011 and 2010, the aggregate notional amount of the outstanding sell US dollar currency forwards amounted to US$7.00 million with terms ranging from 8 to 14 days and 5 to 21 days, respectively. As of December 31, 2011 and 2010, the weighted average sell US dollar forward rate is ₱43.94 and ₱44.12, respectively. In 2011 and 2010, realized gain (loss) on currency forwards recorded under 'Trading and securities gain - net' in the statements of income amounted to ₱0.30 million and ₱0.05 million, respectively. In 2011 and 2010, unrealized gain on currency forwards recorded under 'Trading and securities gain - net' in the statements of income amounted to ₱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 ₱5.67 billion and ₱4.33 billion as of December 31, 2011 and 2010, respectively (Note 21).

As of December 31, 2011 and 2010, government securities (included in AFS investments) owned by the Bank with total face value of ₱100 million and ₱40.00 million, respectively, 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 ₱19.71 million, ₱13.45 million and ₱15.21 million in 2011, 2010 and 2009, respectively.

23. Income on Trading and Investment Securities

Interest income on trading and investment securities follows:

	2011	2010	2009
Financial assets at FVPL	**₱8,417,185**	₱1,925,167	₱11,136
AFS investments	**1,258,635,032**	669,829,161	567,820,122
HTM investments	–	734,939,068	957,804,526
	₱1,267,052,217	₱1,406,693,396	₱1,525,635,784

In 2011, 2010 and 2009, peso-denominated financial assets at FVPL and AFS investments earned annual interest rates ranging from 4.25% to 7.92%, 4.10% to 9.13% and 5.50% to 9.13%, respectively, while dollar-denominated financial assets at FVPL and AFS investments earned annual interest ranging from 3.82% to 8.41%, 4.00% to 9.50% and 6.38% to 9.88%, respectively. HTM investments earned annual interest rates ranging from 7.75% to 12.38% in 2010 and 2009.

Trading and securities gain - net includes:

	2011	2010 (As restated - Note 30)	2009
AFS investments	**₱220,166,698**	₱500,900,079	₱115,413,579
Financial assets at FVPL	**7,409,526**	6,140,661	3,771,674
HTM investments	**–**	22,977,176	–
	₱227,576,224	₱530,017,916	₱119,185,253

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, 2011.

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:

	2011	2010
Discount rate		
At January 1	**8.90%**	8.25%
At December 31	**6.40%**	8.90%
Expected return on plan assets	**6.00%**	6.00%
Future salary increases	**8.00%**	10.00%

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:

	2011	2010
Present value of retirement obligation	**₱497,002,024**	₱481,675,716
Fair value of plan assets	**293,697,151**	344,742,994
Deficit	**203,304,873**	136,932,722
Unrecognized actuarial loss	**(136,968,012)**	(134,417,315)
Net retirement liability (Note 17)	**₱66,336,861**	₱2,515,407

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

	2011	2010
Balance at beginning of year	**₱481,675,716**	₱399,445,875
Interest cost	**42,869,139**	32,954,285
Current service cost	**35,002,299**	28,006,771
Benefits paid	**(28,756,715)**	(35,276,711)
Actuarial loss (gain) on retirement obligation	**(33,788,415)**	56,545,496
Balance at end of year	**₱497,002,024**	₱481,675,716

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

	2011	2010
Balance at beginning of year	**₱344,742,994**	₱262,170,813
Contributions paid	–	102,710,292
Expected return	**20,684,580**	15,730,250
Benefits paid	**(28,756,715)**	(35,276,711)
Actuarial loss on plan assets	**(42,973,708)**	(591,650)
Balance at end of year	**₱293,697,151**	₱344,742,994

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

	2011	2010
Current service cost	**₱35,002,299**	₱28,006,771
Interest cost	**42,869,139**	32,954,285
Expected return on plan assets	**(20,684,580)**	(15,730,250)
Actuarial loss	**6,634,596**	3,111,298
Total retirement expense	**₱63,821,454**	₱48,342,104

The movements in the retirement liability follow:

	2011	2010
Balance at beginning of year	**₱2,515,407**	₱56,883,595
Retirement expense	**63,821,454**	48,342,104
Contributions paid	–	(102,710,292)
Balance at end of year	**₱66,336,861**	₱2,515,407

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

	2011	2010
Cash	**85.87%**	87.10%
Investments in government securities, bonds and other debt instruments	**12.51%**	11.65%
Other assets	**1.62%**	1.25%
	100.00%	100.00%

Amounts for the current and previous years follow:

	2011	2010	2009	2008	2007
Present value of retirement obligation	**₱497,002,024**	₱481,675,716	₱399,445,875	₱408,266,712	₱444,937,661
Fair value of plan assets	**293,697,151**	344,742,994	262,170,813	298,657,836	378,111,898
Deficit	**203,304,873**	136,932,722	137,275,062	109,608,876	66,825,763
Experience adjustments on present value of retirement obligation	**(66,152,580)**	(20,411,391)	(45,346,375)	(33,233,155)	17,255,117
Experience adjustments on plan assets	**(42,973,708)**	(591,650)	(4,421,942)	(55,030,990)	(5,681,744)

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 ₱69.07 million, ₱58.73 million and ₱56.92 million in 2011, 2010 and 2009, respectively.

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

	2011	2010
Within one year	**₱49,702,831**	₱53,936,142
Beyond one year but not more than five years	**81,384,764**	77,800,998
	₱131,087,595	₱131,737,140

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:

	2011	2010
Within one year	**₱259,460,899**	₱303,000,531
Beyond one year but not more than five years	**521,331,120**	418,832,505
	₱780,792,019	₱721,833,036

26. Miscellaneous Expenses

This account consists of:

	2011	2010	2009
Management and professional fees	**₱88,110,439**	₱25,755,503	₱26,133,288
Insurance	**59,798,224**	59,622,721	61,458,189
Communications	**34,429,235**	36,081,656	34,292,390
Litigation and assets acquired	**18,315,949**	2,343,910	5,337,655
Transaction dues	**17,107,173**	18,355,267	21,962,376
Information technology	**13,943,364**	11,579,047	9,324,999
Stationery and supplies	**11,501,961**	11,135,365	11,554,842
Entertainment, amusement and recreation (EAR) (Note 27)	**10,803,627**	16,520,648	21,023,836
Advertising	**2,460,886**	1,628,239	1,783,182
Reversal of provision for tax assessments (Note 21)	**(197,871,861)**	–	(169,663,646)
Others	**101,527,034**	159,214,297	109,834,149
	₱160,126,031	₱342,236,653	₱133,041,260

Others include brokerage fees, transporation expenses and provision for year-end expenses. 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 and provision for year end expenses amounting to ₱40.00 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.

On March 15, 2011, the BIR issued RR No. 4-2011 which prescribes the attribution and allocation of expenses between FCDUs/EFCDUs or OBU 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 statement of income) amounted to ₱10.80 million in 2011, ₱16.52 million in 2010 and ₱21.02 million in 2009 (Note 26).

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 offshore banking units (OBUs) is taxed at 7.50%.
RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
Current:			
Final	**₱248,789,433**	₱273,993,561	₱287,829,338
RCIT – FCDU	**215,402**	284,944	314,906
	249,004,835	274,278,505	288,144,244
Deferred	**116,531,495**	54,198,614	(46,144,888)
	₱365,536,330	₱328,477,119	₱241,999,356

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

	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
Deferred tax liability on:			
Revaluation increment credited to surplus free (Note 12)	**₱435,996,258**	₱443,339,472	₱449,244,137
Revaluation increment on land (Note 11)	**74,254,518**	82,505,119	48,400,772
Fair value gain on foreclosed properties (Note 12)	–	–	58,814,696
Fair value gain on condominium units for lease	**402,369,489**	285,837,993	231,639,379
Unamortized transaction cost on bills payable	**15,827,299**	20,832,335	24,584,838
	928,447,564	832,514,919	812,683,822
Deferred tax assets on allowance for credit and impairment losses	**(500,224,329)**	(512,572,579)	(581,044,443)
	₱428,223,235	₱319,942,340	₱231,639,379

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:

	2011	2010
NOLCO	**₱1,352,878,935**	₱1,728,673,951
Allowance for credit and impairment losses	**1,345,651,647**	1,295,088,840
Fair value loss on financial assets acquired at off-market rates	**529,911,254**	534,078,185
Retirement liability	**66,336,861**	2,515,407
Unamortized past service cost	**61,358,097**	70,404,320
Advance rental income	**35,523,218**	23,009,127
Provision for year-end expenses	**19,596,982**	7,817,453
	₱3,411,256,994	₱3,661,587,283

Details of the Bank's NOLCO are as follows:

Inception Year	Amount	Expired	Balance	Expiry Year
2008	₱655,794,182	₱655,794,182	₱–	2011
2009	592,038,205	–	592,038,205	2012
2010	480,841,564	–	480,841,564	2013
2011	279,999,166	–	279,999,166	2014
	₱2,008,673,117	₱655,794,182	₱1,352,878,935	

A reconciliation between the statutory income tax and the effective income tax follows:

	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
Statutory income tax	**₱348,569,590**	₱274,748,622	₱167,614,973
Tax effect of:			
Nondeductible expenses and others	**423,774,303**	307,809,070	219,441,493
Changes on unrecognized deferred tax assets	**50,889,399**	206,405,871	227,817,258
FCDU income before income tax	**(42,318,692)**	(87,484,039)	(54,112,885)
Interest income subjected to final tax - net of nondeductible interest expense	**(119,961,510)**	(126,148,990)	(59,726,592)
Nontaxable income	**(295,416,760)**	(246,853,415)	(259,034,891)
Effective income tax	**₱365,536,330**	₱328,477,119	₱241,999,356

28. **Related Party Transactions**

In the ordinary course of business, the Bank has loan transactions with its associates and affiliates, and with certain DOSRI. Under the Bank's existing 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 70.00% must be secured, should not exceed the amount of their respective unencumbered 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 regulatory capital or 15.00% 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, 2011 and 2010, the Bank is in compliance with such regulations.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of a bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective February 15, 2007.

BSP Circular No. 423, dated March 15, 2004, amended the definition of DOSRI accounts. Further, BSP issued Circular No. 464, dated January 4, 2005, clarified the definition of stockholders. The following table shows information relating to DOSRI loans:

	2011	2010
Total outstanding DOSRI loans	**₱22,818,699**	₱33,812,318
Total outstanding DOSRI loans granted under regulations existing prior to Circular No. 423	**22,818,699**	33,812,318
New DOSRI loans granted under Circular No. 423	**–**	–
Total outstanding non-DOSRI loans prior to Circular No. 423	**10,925,439,048**	9,852,005,372
Percent of DOSRI loans to total loans	**0.21%**	0.34%
Percent of unsecured DOSRI loans to total DOSRI Loans	**44.45%**	30.14%
Percent of past due DOSRI loans to total DOSRI loans	**2.55%**	2.56%
Percent of nonperforming DOSRI loans to total DOSRI loans	**2.55%**	2.56%

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.

The year-end balances of loans and interest income earned in respect of related parties which are included in the Bank's financial statements follow:

	Loans		Interest Income		
	2011	2010	**2011**	2010	2009
Multi Purpose Loan	**₱22,818,699**	₱26,062,318	**₱2,858,798**	₱3,227,915	₱3,806,694
Triton Securities Corporation	**–**	7,750,000	**–**	653,583	763,375
	₱22,818,699	₱33,812,318	**₱2,858,798**	₱3,881,498	₱4,570,069

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:

	2011	2010	2009
Deposit liabilities	**₱88,237,030**	₱10,412,725	₱10,921,958
Interest expense	**259,664**	52,633	13,939

The remuneration of directors and other members of key management are as follows:

	2011	2010	2009
Short-term benefits	**₱44,327,648**	₱36,645,520	₱45,223,552
Post-employment benefits	**36,282,139**	12,569,936	19,098,103
	₱80,609,787	₱49,215,456	₱64,321,655

29. Financial Performance

Basic and diluted EPS amounts were computed as follows:

	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
a. Net income	**₱796,362,304**	₱587,351,620	₱316,717,221
Less income attributable to preferred shareholders	**553,673,520**	408,358,152	220,198,693
b. Net income attributable to common	**242,688,784**	178,993,468	96,518,528
c. Weighted average number of common shares	**52,598,965**	52,598,965	52,598,965
d. Earnings per share (a/b)	**₱4.61**	₱3.40	₱1.83

The change in accounting policy as discussed in Note 30 resulted in increase in EPS of ₱1.21 in 2010 and ₱1.24 in 2009. 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:

	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
Return on average equity (ROE)	**41.84%**	(62.28%)	(12.11%)
Return on average assets (ROA)	**1.99%**	1.54%	0.81%
Net interest margin on average earning assets	**3.81%**	4.55%	3.87%

30. Change in Accounting Policy and Accelerated Amortization of SPV loss

In 2011, the Bank restated its 2010 and 2009 financial statements to effect the following:

- change in accounting policy on measurement of investment properties from cost to fair value model as allowed under PAS 40, *Investment Properties*; and
- 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.

The Bank's deferral of the recognition of the loss on sale to SPV was subject of the qualification of the auditor's report issued on the Bank's financial statements since 2004. The loss, which amounted to ₱11.12 billion in 2004, was allowed under the regulations issued by the BSP for banks and financial institutions availing the provisions of R.A. No. 9182, "The Special Purpose Vehicle Act of 2002" to be deferred and amortized over ten years. Prior to the restatement, the unamortized portion of the loss was reported in 'Deferred charges' account under Other Assets and the amortization of the loss is charged retrospectively against deficit. Under BSP regulations, the yearly amortization is charged against profit or loss. Had the Bank accounted for the loss on sale to SPV in accordance with BSP regulations, net income would have decreased by ₱1.14 billion, ₱1.08 billion and ₱1.08 billion in 2011, 2010 and 2009, respectively, while total assets and equity would have increased by ₱4.78 billion as of December 31, 2011, ₱5.92 billion as of December 31, 2010 and ₱7.00 billion as of December 31, 2009.

The Bank also prepared the comparative 2010 financial statements in accordance with PFRS relative to the accounting for the tainting of HTM investments. In 2010, the Bank prepared its financial statements under generally accepted accounting principles in the Philippines for banks to avail of the exemption on tainting rules provided by the SEC to financial institutions that participated in the bond exchange program. Under the exemption, the Bank was allowed to retain under HTM the bond received from the exchange amounting to ₱128.85 million and the remaining unsold portfolio provided that the gain from the exchange amounting to ₱22.98 million is deferred. Under PFRS, 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 will then have to be reclassified as AFS investments and measured at fair value.

The tables below show the reconciliation of previously reported and restated balances of financial statement accounts affected by the restatements as discussed above:

2010	As previously reported		Prior-period adjustments	As restated
Statement of financial position				
Available-for-sale investments	₱6,383,573,591	a-c	₱9,633,303,687	₱16,016,877,278
Held-to-maturity investments	7,811,130,176	a-c	(7,811,130,176)	–
Investment properties				
Condominium units for lease	2,166,804,689	f-h	952,793,311	3,119,598,000
Foreclosed properties	500,970,615	i-n	163,670,623	664,641,238
Other assets	6,082,622,129	o	(5,921,040,451)	161,581,678
Total assets	41,659,117,968		(2,982,403,006)	38,676,714,962
Deferred tax liabilities	34,104,347	p,q	285,837,993	319,942,340
Other liabilities	2,917,661,450	c,d	(66,513,499)	2,851,147,951
Total liabilities	38,084,197,317		219,324,494	38,303,521,811
Deficit	(5,383,740,185)		(5,067,876,859)	(10,451,617,044)
Net unrealized gains on AFS investments	(100,328,978)	b	1,866,149,359	1,765,820,381
Total equity	3,574,920,651		3,201,727,500	373,193,151
Statement of income				
Interest income on trading and investments securities	1,407,132,921	E	(439,525)	1,406,693,396
Trading and securities gain	507,040,740	d,e	22,977,176	530,017,916
Profit from assets sold or exchanged.	2,972,197	b	2,068,136	5,040,333
Fair value gain from investment properties	–	g,k	5,098,828	5,098,828
Depreciation and amortization	131,078,948	h,l	(54,534,396)	76,544,552
Provision for credit and impairment losses	377,793,501	m	(180,007,495)	197,786,006
Provision for income tax	274,278,505	q	54,198,614	328,477,119
Net income	₱377,303,728		₱210,047,892	₱587,351,620

2009	As previously reported		Prior-period adjustments	As restated
Investment properties				
Condominium units for lease	₱2,197,718,885	f-h	₱772,131,262	₱2,969,850,147
Foreclosed properties	888,802,840	i-n	102,623,817	991,426,657
Other assets	6,131,058,996	o	(5,921,040,451)	210,018,545
Total assets	42,625,626,361		(5,046,285,372)	37,579,340,989
Deferred tax liabilities	–	p,q	231,639,379	231,639,379
Total liabilities	39,606,925,925		231,639,379	39,838,565,304
Deficit	5,761,043,913		5,277,924,751	11,038,968,664
Total equity	3,018,700,436		5,277,924,751	2,259,224,315
Statement of income				
Loss from assets sold or exchanged	(6,377,267)	j	74,425,511	68,048,244
Fair value gain from investment properties	–	g,k	143,616,904	143,616,904
Depreciation and amortization	151,902,631	h,l	(60,028,972)	91,873,659
Provision for credit and impairment losses	346,495,064	n	32,060,761	378,555,825
Provision for income tax	210,512,957	q	31,486,399	241,999,356
Net income	₱102,192,994		₱214,524,227	₱316,717,221

The nature of the restatement amounts as shown in the table above is as follows:

Effects on AFS and HTM Investments in 2010

a. Reclassification of tainted HTM investments with carrying value of ₱7.81 billion to AFS investments
b. Recognition of fair value gains of ₱1.87 billion on HTM investments reclassified to AFS
c. Adjustment to initial recording of AFS investments of ₱43.98 million
d. Realization of gain from bond exchange amounting to ₱22.54 million
e. Reversal of amortization of gain from bond exchange credited to interest income amounting to ₱0.44 million

Condominium Units For Lease

f. Recognition of fair value gain and reversal of accumulated depreciation of ₱571.86 million credited to 2009 beginning deficit
g. Recognition of fair value gain of ₱136.22 million and ₱155.97 million credited to 2010 and 2009 operations, respectively.
h. Reversal of depreciation charged to 2010 and 2009 operations amounting to ₱44.44 million and ₱44.30 million, respectively

Foreclosed Assets

i. Recognition of fair value gain and reversal of accumulated depreciation on foreclosed assets amounting to ₱56.88 million credited to 2009 beginning deficit
j. Reversal of loss on sale of foreclosed assets amounting to ₱2.07 million and ₱74.43 million charged to 2010 and 2009 operations, respectively.
k. Recognition of fair value loss on foreclosed assets amounting to ₱131.12 million and ₱12.35 million charged to 2010 and 2009 operations, respectively.
l. Reversal of depreciation on foreclosed assets amounting to ₱10.09 million and ₱15.73 million charged to 2010 and 2009 operations, respectively

m. Reversal of provision for impairment losses of foreclosed assets amounting to ₱180.01 million charged to 2010 operations
n. Additional allowance for impairment losses amounting to ₱32.06 million

Other Assets
o. Correction of accounting for loss on sale to SPV amounting to ₱5.92 billion

Deferred Tax Liabilities
p. Recognition of deferred tax liability on fair value gain on condominium units for lease credited to 2009 beginning deficit amounting to ₱200.15 million
q. Recognition of deferred tax liability on fair value gain charged to 2010 and 2009 operations amounting to ₱54.20 million and ₱31.49 million, respectively.

The reconciliation of the effect on deficit of the items discussed in the foregoing paragraphs is summarized below:

Deficit	**2010**	2009	2008
As previously reported	**(₱5,383,740,185)**	(₱5,761,043,913)	(₱5,865,996,809)
Prior-period adjustments:			
Correction of the accounting treatment on loss on sale to SPV	**(5,921,040,451)**	(5,921,040,451)	(5,921,040,451)
Change in accounting policy on investment properties (Note 12)	**830,625,941**	643,115,700	428,591,473
Gain from bond exchange previously deferred	**22,537,651**	–	–
	(5,067,876,859)	(5,277,924,751)	(5,492,448,978)
As restated	**(₱10,451,617,044)**	(₱11,038,968,664)	(₱11,358,445,787)

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

The amounts of interbank loans receivable and SPURA considered as cash and cash equivalents as of December 31, 2011, 2010 and 2009 follow:

	2011	2010	2009
Interbank loans receivables and SPURA shown under statements of cashflows	**₱2,786,242,240**	₱1,105,442,177	₱1,790,111,707
Interbank loans receivables and SPURA not considered as cash and cash equivalents	**43,840,000**	43,840,000	–
	₱2,830,082,240	₱1,149,282,177	₱1,790,111,707

The following is a summary of noncash activities:

	2011	2010 (As restated - Note 30)	2009 (As restated - Note 30)
Noncash operating activities:			
Additions to loans and receivable from disposal of investment properties (Note 12)	**₱75,221,142**	₱30,530,760	₱–
Rescission of sales contract receivables	**4,814,282**	–	–
Noncash investing activities:			
Increase (decrease) in land due to revaluation	**(27,502,000)**	113,681,156	(24,145,362)
Reclassification from to HTM investments to AFS investments (Note 30)	–	7,787,676,931	–
Fair value gain on securities reclassified from HTM to AFS investments	–	1,788,332,814	–
Net increase in fair value of AFS Investments	**42,657,066**	154,473,588	427,058,721
Additions to investment properties in settlement of loans (Note 12)	**4,814,282**	24,271,940	1,072,555
Transfer from (to) property and equipment to (from) investment properties (Notes 11 and 12)	**–**	5,822,559	(71,530,000)
Transfer from chattel mortgage to Investment properties (Notes 12 and 13)	**–**	–	32,737,928

32. Supplementary Information Under Revenue Regulations 19-2011

In its 2011 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	₱1,108,612,991
Cost of Sales/Services	(740,061,626)
Non-Operating and Taxable Other Income	37,728,561
Itemized Deductions	(686,279,092)
	(₱279,999,166)

The details of the Sales/Receipts/Fees

Interest income	₱516,784,735
Rental income	290,287,803
Service charges, fees, and commissions	126,451,489
Profit (loss) from assets sold or exchanged	125,416,388
Income from trust operations	19,707,792
Trading and securities gain	3,062,194
Miscellaneous income	26,902,590
	₱1,108,612,991

The details of Cost of Sales follow:

Interest expense	₱351,590,402
Salaries and wages	332,220,249
Insurance	45,534,583
Banking Fees	10,716,392
	₱740,061,626

The following composed the Non-operating and Taxable Other Income:

Rental income	₱35,523,218
Trading and securities gain	2,080,964
Miscellaneous	124,379
	₱37,728,561

The following composed the itemized deductions:

Taxes and licenses	₱266,617,054
Compensation and fringe benefits	97,723,961
Depreciation and amortization	78,367,908
Rent, light and water	72,643,090
Management and professional fees	30,992,359
Communications	26,084,624
Litigations and assets acquired	15,851,177
Stationary and supplies	8,714,232
Entertainment, amusement and recreation	8,185,153
Advertising	1,864,442
Other	79,235,092
	₱686,279,092

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 2011.

Gross receipts tax	₱184,387,624
Documentary stamp tax	80,136,069
Local taxes	28,830,159
Fringe benefit tax	1,045,707
Others	170,197
	₱294,569,756

Withholding Taxes

Details of total remittances in 2011 and outstanding balance of withholding taxes as of December 31, 2011 follow:

	Total Remittances	Balance as of December 31
Final withholding taxes on deposit substitute borrowings	₱151,848,073	₱12,803,341
Withholding taxes on compensation and benefits	89,765,906	7,133,185
Expanded withholding taxes	21,385,694	1,909,058
	₱262,999,673	₱21,845,584