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S.E.C. Registration Number

PHILIPPINE BANK OF COMMUNICATIONS

(Company's Full Name)

PBCOM TOWER, 6795 AYALA AVENUE
CORNER V.A. RUFINO STREET
MAKATI CITY

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

Rodolfo Ma. A. Ponferrada	**(02) 830-7061**
Contact Person	Company Telephone Number

1 2	**3 1**	**2 0 I S**	**0 6**	**2 5**
Month	Day	Form Type	Month	Day
Fiscal Year			Annual Meeting	

Secondary License Type, If Applicable

C F D	
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

4 1 7		
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel Concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS

Please take notice that the Annual Meeting of Stockholders of the **PHILIPPINE BANK OF COMMUNICATIONS** will be held on Tuesday, 25 June 2013 at 10:00 a.m. at the 15th Floor, PBCom Tower, 6795 Ayala Avenue cor. V.A. Rufino St., Makati City to discuss the following:

A G E N D A

1. Call to Order
2. Certification of Notice and Quorum
3. Review and Approval of the Minutes of the Previous Meeting held on 28 March 2012
4. Annual Report of Management and Approval of the Audited Financial Statements for 2012
5. Ratification of Acts of the Board of Directors and Management Since the Last Annual Meeting of Stockholders
6. Election of Directors
7. Amendment of the Article Second of the Articles of Incorporation of the Bank to allow the Bank to perform the functions of a universal (expanded commercial) bank
8. Appointment of External Auditor
9. Other Matters
10. Adjournment

For purposes of the meeting, only stockholders of record as of 15 April 2013 are entitled to notice of, and to vote at, the Annual Meeting of Stockholders.

Registration starts at 9:00 a.m. For your convenience in registering your attendance, please have available some form of identification, such as your driver's license, passport or any government issued ID. For representatives of corporate stockholders, kindly bring a copy of the Board Resolution authorizing you to vote the shares of the company you represent.

Should you be unable to attend the meeting in person, you may want to execute a proxy in favor of a representative. The giving of such proxy will not affect your right to vote in person, should you decide to attend the Annual Meeting.

Copies of the following documents will be available upon request: (i) Minutes of the Annual Meeting of Stockholders held on 28 March 2012; (ii) Information Statement; (iii) Management Report; (iv) Audited Financial Statements for the year 2012.

3 June 2013

RODOLFO MA. A. PONFERRADA
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20 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. Province, country or other jurisdiction of incorporation or organization **Philippines**

4. SEC Identification Number **PW00000686**

5. BIR Tax Identification Number **000-263-340-000**

6. Address of Principal Office PBCOM Tower, 6795 Ayala Avenue corner V.A. Rufino Street, Makati City 1226, Philippines

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

8. Date, time and place of meeting of security holders
   Date **25 June 2013, Tuesday**
   Time **10:00 a.m.**
   Place **15th Floor, PBCom Tower, 6795 Ayala Avenue cor. V.A. Rufino St., Makati City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders
   3 June 2013

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

Title of Each Class	Number of Common Stock Outstanding or Amount of Debt Outstanding
Common Stock	**299,564,555 shares**

11. Are any or all of the registrant's securities listed on a Stock Exchange?
    Yes √ No

12. If yes, disclose the name of such Stock Exchange and the class of securities listed therein:
    Philippine Stock Exchange **Common Shares**

INFORMATION STATEMENT

We are not asking you for a proxy and you are requested not to send us a proxy.

GENERAL INFORMATION

Date, Time and Place of Meeting of Security Holders

Date	:	25 June 2013, Tuesday
Time	:	10:00 a.m.
Place	:	15th Floor, PBCom Tower, 6795 Ayala Avenue cor. V.A. Rufino St., Makati City

Mailing Address of the Bank

The complete mailing address of the Philippine Bank of Communications (hereinafter, "PBCom", the "Bank" or the "Corporation") is:

PHILIPPINE BANK OF COMMUNICATIONS
PBCom Tower, 6795 Ayala Ave. corner V.A. Rufino St.
Makati City 1226, Philippines

Record Date

The record date for the purpose of determining the stockholders entitled to notice of, and to vote at, the Annual Meeting of the Stockholders is 15 April 2013 (the "Record Date").

Approximate Date of First Release of Information Statement

The approximate date on which this Information Statement will be first sent out to the stockholders of the Bank is on 3 June 2013.

Dissenter's Right of Appraisal

There are no matters or proposed actions as specified in the attached Notice of Annual Meeting that may give rise to a possible exercise by shareholders of their appraisal rights or similar rights as provided in Title X of the Corporation Code of the Philippines.

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 stockholders 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

There is no matter to be acted upon in which any director or executive officer is involved or had a direct, indirect or substantial interest (except the election of directors).

No director has informed the registrant, in writing or otherwise, that he intends to oppose any action to be taken by the registrant at the Meeting.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

(a) **Total Number of Shares Outstanding as of 15 April 2013**: 299,564,555 common shares

Number of Votes per Share: One (1) vote per share.

(b) **Record Date**: All stockholders of record as of the close of business on 15 April 2013 are entitled to notice of, and to vote at, the Annual Meeting.

(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 in 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.

Security Ownership of Certain Record and Beneficial Owners – as of <u>15 April 2013</u>

There are no delinquent stocks and the direct and indirect record of beneficial owners of more than five percent (5%) of common shares of the Bank are:

Title of Class	Name and Address of Record Owner and relationship with Issuer	Name of Beneficial Ownership and relationship with Record Owner	Citizenship	No. of Shares	% Held
Common	Eric O. Recto (5/F PBCom Tower 6795 Ayala Ave. cor. V.A. Rufino St., Makati City) Stockholder	Eric O. Recto – same as record owner	Filipino	72,479,427	24.19%
Common	ISM Communications Corporation (The Penthouse, Alphaland Southgate Tower, 2258 Chino Roces Ave. cor. EDSA, Makati City) Stockholder	ISM Communications Corporation – same as record owner	Filipino	64,048,425	21.38%
Common	Ralph C. Nubla, Jr. (2 Sanso St., Corinthian Gardens, Quezon City) Stockholder	Ralph C. Nubla, Jr. – same as record owner	Filipino	51,779,374	17.28%
Common	Telengtan Brothers and Sons, Inc. (Km. 14 South Superhighway, Parañaque City) Stockholder	Telengtan Brothers and Sons, Inc. – same as record owner	Filipino	31,859,844	10.64%
Common	Langford Universal Finance, Ltd. (Vanterpool Plaza, 2nd Floor, Wickhams Cay I, Road Town, Tortola, British Virgin Islands) Stockholder	Langford Universal Finance, Ltd. – same as record owner	BVI	15,263,964	5.10%

Except as stated above, the Board of Directors and Management of the Bank have no knowledge of any person who, as at Record Date, was indirectly or directly the beneficial owner of more than five percent of the Bank's outstanding shares of common stock or who has voting power or investment power with respect to shares comprising more than five percent of the outstanding shares of common stock. There are no persons holding more than 5% of the Bank's common stocks that are under a voting trust or similar agreement.

Security Ownership of Management

The following are the number of shares of common stock owned of record and beneficially by the directors and executive officers of the Bank and the percentage of shareholdings of each, as at 15 April 2013:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent
Common	Eric O. Recto	Direct	72,479,427	Filipino	24.19%
Common	Mario J. Locsin	Direct	10	Filipino	0.00%
Common	Henry Y. Uy	Direct	10	Filipino	0.00%
Common	Nina D. Aguas	Direct	10	Filipino	0.00%
Common	Bunsit Carlos G. Chung	Direct	550,716	Filipino	0.18%
		Indirect	449,294		0.15%
Common	Ralph C. Nubla, Jr.	Direct	51,779,374	Filipino	17.28%
Common	Patrick Sugito Walujo	Direct	10	Indonesian	0.00%
Common	Gregorio T. Yu	Direct	1,790,863	Filipino	0.60%
Common	Tomas I. Alcantara	Direct	10	Filipino	0.00%
Common	Jesus S. Jalandoni, Jr.	Direct	10	Filipino	0.00%
Common	Jose P. Leviste, Jr.	Direct	900	Filipino	0.00%
Common	Roberto M. Macasaet, Jr.	Direct	1	Filipino	0.00%
Common	Teresita Ang See	Direct	1	Filipino	0.00%
Common	Raul O. Serrano	Direct	1	Filipino	0.00%
Common	Imelda I. Singzon	Direct	1	Filipino	0.00%

Except as disclosed above, the Bank has not received from any of the directors or executive officers of the Bank any statement of ownership, whether of record or beneficially, of more than 5% of the Bank's outstanding shares of common stock. As known by the Bank, the aggregate number of common shares owned directly by all key officers and directors as a group as at 15 April 2013 was 127,050,638 common shares.

Changes in Control

There are no voting trust agreements or any other similar agreement that may result in a change in control of the Bank of which the Bank has any knowledge. No change in control of the Bank has occurred since the beginning of its last fiscal year.

Directors and Executive Officers

Pursuant to the Bank's By-Laws, the directors are elected at the annual stockholders' meeting to hold office until next succeeding annual meeting and until their respective successors in interest have been elected and qualified.

The following names have been nominated to the Board of Directors for the ensuing year:

Eric O. Recto
Mario J. Locsin
Henry Y. Uy
Nina D. Aguas
Bunsit Carlos G. Chung
Ralph C. Nubla, Jr.
Imelda S. Singzon
Patrick Sugito Walujo
Gregorio T. Yu
Tomas I. Alcantara – Independent Director
Jesus S. Jalandoni, Jr. – Independent Director
Jose P. Leviste, Jr. – Independent Director
Roberto M. Macasaet, Jr. – Independent Director
Teresita Ang See – Independent Director
Raul O. Serrano – Independent Director

The aforementioned nominees were nominated to the Nominations Committee by shareholders of the Bank.

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

The following names have been nominated as members of the Executive, Risk Management, Governance, Audit, and Trust Committees for the ensuing year:

Executive Committee

a. Gregorio T. Yu (Chairman)
b. Eric O. Recto (Vice Chairman)
c. Nina D. Aguas
d. Imelda S. Singzon
e. Roberto M. Macasaet, Jr. (Independent Director)
f. Raul O. Serrano (Independent Director)
g. Mario J. Locsin
h. Ralph C. Nubla, Jr. (alternate)
i. Bunsit Carlos G. Chung (alternate)
j. Henry Y. Uy (alternate)

Risk Management Committee

a. Roberto M. Macasaet (Chairman/Independent Director)
b. Gregorio T. Yu
c. Ralph C. Nubla, Jr.
d. Imelda S. Singzon
e. Bunsit Carlos G. Chung
f. Nina D. Aguas
g. Henry Y. Uy (alternate)

Governance Committee

a. Jose P. Leviste, Jr. (Chairman/Independent Director)
b. Raul O. Serrano (Independent Director)
c. Eric O. Recto
d. Ralph C. Nubla, Jr.

e. Teresita Ang See (Independent Director)

The Governance Committee also serves as the Bank's Nominations Committee, Compensation and Remuneration Committee and Performance Evaluation Committee.

Audit Committee

a. Raul O. Serrano (Chairman/Independent Director)
b. Imelda S. Singzon
c. Bunsit Carlos G. Chung
d. Henry Y. Uy
e. Teresita Ang See (Independent Director)

Trust Committee

a. Eric O. Recto (Chairman)
b. Roberto M. Macasaet, Jr. (Independent Director)
c. Ralph C. Nubla, Jr.
d. Nina D. Aguas
e. Raul C. Diaz (Trust Officer)

Rules on Nomination and Election of Directors and 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 the 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 the final list of candidates, including a summary of all relevant information about them.

Names of Directors and Executive Officers

The following are the names, ages and periods of service of the incumbent directors and executive officers of the Company with a brief description of the business experience during the past five years of each of the directors and executive officers:

Board of Directors

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

MARIO J. LOCSIN, *Vice Chairman and Director*
Mr. Locsin, Filipino, 60 years old, was elected Director in October 27, 2011 and appointed as Vice Chairman of the Board on January 18, 2012. He is also Director of ISM Communications Corporation, PhilWeb Corporation and Atok-Big Wedge, Co., Inc. He is also Independent Director of Alphaland Corporation, Alphaland Balesin Island Club, Inc., The City Club at Alphaland Makati Place, Inc. and Alphaland Marina Club, Inc. In the past, he served as President and COO of Eastern Telecommunications Philippines, Inc. and Atok-Big Wedge Co., Inc., Director of Belle Corporation, APC Group, Southwest Resources, Philippine Long Distance Telephone Co., and Pilipino Telephone Corp., as well as Director, Executive Vice President and COO of Philippine Airlines. Mr. Locsin is also a consultant of Acentic Asia Ltd. He holds a Master's degree in Business Administration from the University of San Francisco (1980), and a degree in Lia-Honors Math from De La Salle University (1973).

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

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

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

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

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

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

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

JESUS S. JALANDONI, JR., *Independent Director*
Mr. Jalandoni, Filipino, 55 years old, was elected Independent Director on January 28, 2013. He is currently Director of Liberty Flour Mills, JM & Co., Inc., Personal Computer Specialist, Inc. as well as Managing Director of Alegria Development Corporation. He is also Executive Vice President of Enterprise Leasing Corporation, President of LFM Properties Corporation, Valueline Realty & Development Corporation, Buendia Offices Condominium Corporation and Second Midland Corporation. Mr. Jalandoni holds a Bachelor of Science degree in Business Management major in Economics at Simon Fraser University, Burnaby, British Columbia.

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

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

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

RAUL O. SERRANO, *Independent Director*
Mr. Serrano, Filipino, 73 years old, was elected was elected Independent Director on October 15, 2010. In the past, he was a member of the Board of Trustees of the Government Service Insurance System. He held various managerial positions in Solidbank Corporation and Allied Banking Corporation until retirement. He holds a degree in Bachelor of Science in Commerce major in Finance from Ateneo de Naga University.

IMELDA S. SINGZON, *Independent Director*
Ms. Singzon, Filipino, 62 years old, was elected Independent Director on October 15, 2010. Currently, she is Executive Vice President for Examination and Resolution Sector of the Philippine Deposit Insurance Corporation. In the past, she was Independent Director of Export Industry Bank, First Senior Vice President of the Philippine National Bank, Vice President of New York-based First Philippine Fund, a director in various government corporations such as the National Food Authority, Livelihood Corporation, Fertilizer and Pesticides Authority. She holds a degree in Bachelor of Science in Statistics as well as a Certificate in Development Economics (with distinction) from the University of the Philippines.

Independent Director

As approved by the Board of Directors, the procedure for the nomination of independent directors shall be as follows:

The nomination of independent directors shall be conducted by the Nominations Committee prior to the Annual Meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the nominees for election. The Nominations Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent directors.

After the nomination, the Nominations Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for independent directors, as required by existing and applicable rules, which list, shall be made available to the Commission and to all stockholders through the filing and distribution of the information statement, or in such other reports the Company is required to submit the Commission. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relation with the nominee.

Only nominees whose names appear on the final list of candidates shall be eligible for election as independent directors. No other nomination shall be entertained after the final list of candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

All nominees, Messrs. Tomas I. Alcantara, Jesus S. Jalandoni, Jr., Jose P. Leviste, Jr., Roberto M. Macasaet, Jr., Mr. Raul O. Serrano and Ms. Teresita Ang See do not have a relationship with the Bank which would interfere with the exercise of independent judgment in carrying out responsibilities of a director. None of them are related to any of the directors or officers of the Company.

Mr. Eric O. Recto has recommended the nomination of all the independent directors for the ensuing year. Mr. Recto is not related to any of the mentioned nominees. The Nominations Committee has taken into consideration the qualifications to be an independent director. Attached as **Annexes "A" - "F"** are the Certifications of the Qualification of the Nominees for Independent Directors of Messrs. Tomas I. Alcantara, Jesus S. Jalandoni, Jr., Jose P. Leviste, Jr., Roberto M. Macasaet, Jr., and Raul O. Serrano, and Ms. Teresita Ang See

In approving the nomination for Independent Director, the Nomination Committee took into consideration the guidelines on the nomination of Independent Directors prescribed in SEC Memorandum Circular No. 16, Series of 2002. All the nominees for election to the Board of Directors have at least one (1) share registered in their names.

The Nominations Committee is composed of Messrs. Jose P. Leviste, Jr. (Chairman), Eric O. Recto, Raul O. Serrano, Ralph J. Nubla, Jr. and Ms. Teresita Ang See.

OFFICERS

RODOLFO MA. A. PONFERRADA, *Corporate Secretary and Corporate Information Officer*
Mr. Ponferrada, Filipino, 36 years old, was elected Corporate Secretary on July 26, 2011. He is Corporate Secretary and Director of PhilWeb Corporation, Alphaland Corporation and Atok-Big Wedge Co., Inc. He is also Corporate Secretary of The City Club at Alphaland Makati Place, Inc.,

Alphaland Balesin Island Club, Inc., Alphaland Marina Club, Inc. and ISM Communications Corporation. He is likewise Assistant Corporate Secretary of Eastern Telecommunications Philippines, Inc. He is a member (representing the private sector) 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 the Ateneo de Manila University in 1997 and his Bachelor of Laws cum laude from the University of the Philippines in 2001. He is a member of the Philippine Bar.

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

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

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

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

VICTOR Q. LIM, *Executive Vice President- Prosperity Banking Segment*
Mr. Lim, Filipino, 52 years old, was hired on October 30, 2012. He has a broad based experience in sales, credit and banking office administration. He was formerly EVP and Retail Banking Group head of Chinatrust Commercial Bank Philippines, Senior Asset Manager/Project Consultant of Solomon Edwards Group/Federal Insurance Corporation, Vice President and Compliance and Control Director

of Citibank N.A. Shanghai, Vice President & Country Business Manager of Citibank N.A. Guam, USA, and held various managerial positions with Citibank N.A. Philippines. Mr. Lim graduated cum laude in Bachelor of Science in Physical Therapy (Rehabilitation Medicine) from the University of Sto. Tomas and a Master in Business Management from the Asian Institute of Management.

EMMANUEL S. SANTIAGO, *Executive Vice President-Enterprise Banking Segment*
Mr. Santiago, Filipino, 58 years old, was hired on October 30, 2012. He was previously connected with China Bank Savings, Inc. as SVP and Head of Lending, Resident Advisor of CARD SME Bank, Consultant – Small Medium Enterprises with the Development Bank of the Philippines, Resident Advisor of CARD MRI/International Finance Corporation (IFC) of the World Bank SME Project, Business Development Consultant to medium-sized private corporations, Chief Finance Officer to local companies, Vice President and Senior Banker of Citibank, N.A. – Philippines, Senior Vice President and Corporate Bank Head of Global Business Bank, SVP and Corporate Bank Head of Urban Bank, and Vice president of Citibank N.A., Philippines as head of Japanese Corporate Business Desk and Industry Specialist team. Mr. Santiago graduated cum laude in B.S. Agriculture from the University of the Philippines Los Baños. He holds an M.S. in Agricultural Economics from the Kansas State University in Manhattan, Kansas, USA, an Advance Graduate Studies in Corporate Finance – Doctor of Business Administration (DBA) Program form the Indiana University, Bloomington, Indiana, USA as well as a Doctor of Philosophy (Ph. D.) in Economics and Corporate Finance from Kansas State University, Manhattan, Kansas, USA.

Directorships in Other Reporting Companies

Mr. Eric O. Recto is also a director of ISM Communications Corporation, Philweb Corporation, Atok-Big Wedge Co. Inc., Petron Corporation, The City Club at Alphaland Makati Place, Inc., Alphaland Balesin Island Club, Inc., Manila Electric Company and San Miguel Corporation.

Mr. Mario J. Locsin is also a director of PhilWeb Corporation, Atok-Big Wedge Co., Inc. and ISM Communications Corporation, and an independent director of Alphaland Corporation, The City Club at Alphaland Makati Place, Inc., and Alphaland Balesin Island Club, Inc.

Mr. Tomas I. Alcantara is also a director of Alsons Consolidated Resources, Inc., and Holcim Philippines, Inc. and an independent director of PhilWeb Corporation.

Mr. Jesus S. Jalandoni, Jr. is a director of Liberty Flour Mills.

Mr. Jose P. Leviste, Jr. is an independent director of Alphaland Corporation.

Shares of Alphaland Corporation (ALPHA), Atok-Big Wedge Co., Inc. (AB), ISM Communications Corporation (ISM), Petron Corporation (PCOR), Manila Electric Company (MER), Alsons Consolidated Resources, Inc. (ACR), Holcim Philippines, Inc. (HLCM), PhilWeb Corporation (WEB), Liberty Flour Mills (LFM) and San Miguel Corporation (SMC) are all listed in the Philippine Stock Exchange, Inc. Preferred shares of The City Club at Alphaland Makati Place, Inc. and Alphaland Balesin Island Club, Inc. are covered by the Registration Statements filed with the SEC.

Significant Employee

The Bank currently does not employ any person who is not an executive officer but makes a significant contribution to the business.

Family Relationships

Messrs. Ralph C. Nubla, Jr. and Henry Y. Uy are brothers-in-law. Other than the foregoing, the persons nominated or chosen by the Bank to become directors or executive officers are not related to each other up to the fourth civil degree either by consanguinity or affinity.

Involvement in Certain Legal Proceedings

The Bank is not aware of any legal proceeding including without limitation to 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.

Certain Relationships and Related Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's transaction with related parties include key management personnel, associates, significant investors and post-employment benefit plan for Bank's employees. These transactions are made in the ordinary course of business and on substantially same terms with that of other parties.

The Bank's related party transactions below are also presented and discussed in details in Note 28 of the Audited Financial Statements.

Related Party	Transaction with the Bank
Post-retirement Plan	Investment made in retirement plan is approved by the Bank's Retirement Board. Interest income from such service and total deposits maintained with the Bank in 2012 amounted P1.46 million and P38.36 million, respectively while interest expenses paid by the Bank to the deposits was P0.4 million.
Key Management Personnel	Senior Management Team constitutes key management personnel for purposes of PAS 24. Short term benefits and post-employment benefits given to SMT in 2012 amounted P64 million and P5.9 million, respectively.
Associate	Year-end balance of deposits and interest expenses incurred by the Bank amounted P6.2 million and P0.02 million, respectively
Significant Investors	Year-end balance of deposits and interest expenses incurred by the Bank amounted to P66.15 million and P0.27 million, respectively.

As required by BSP, the Bank discloses loans transactions with certain directors, officers, shareholders and their related interests ("DOSRI") in the ordinary course of business, under commercial terms and on an arm's length basis observing at all times the legal limits prescribed under current BSP regulations on DOSRI loans. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total unimpaired capital or 15% of the total loan portfolio. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations. As of December 31, 2012 the Bank is in compliance with such regulations.

Compensation of Directors and Executive Officers

The aggregate compensation (including bonuses) paid or accrued during the last three (3) years and the ensuing year to the Company's Chief Executive Officers and the key officers named below, as a group are:

	2012	2011	2010
CEO and four most highly compensated Executive officers	Nina D. Aguas President & CEO (Aug-Dec) Henry Y. Uy President & CEO (Jan-July) Alex Luis M. Pesigan Senior Vice President Juan B. Estioko First Vice President Suzanne B. Mondonedo First Vice President	Henry Y. Uy President & CEO Angel M. Corpus, Executive Vice President Juan B. Estioko First Vice President Enrique L. Luy, Jr. First Vice President Roberto B. Reyes First Vice President	Henry Y. Uy President & CEO Angel M. Corpus, Executive Vice President Guillermo B. Pablo III Senior Vice President Aurora C. Manguerra Senior Vice President Enrique L. Luy, Jr. First Vice President
Salary	P20,331,137.51	P18,847,076.16	P13,774,373.70
Bonus	7,835,174.42	4,309,060.00	3,383,047.50
Other Annual Compensation			
TOTALS	**P28,166,311.93**	**P23,156,136.16**	**P17,157,421.20**
All officers and directors as Group Unnamed			
Salary	255,699,714.32	P219,084,487.10	P210,793,216.48
Bonus	79,354,945.35	52,173,815.36	52,941,678.15
Other Annual Compensation			
TOTALS	**P335,054,659.67**	**P271,258,302.46**	**P263,734,894.63**

The following is the estimated annual compensation for year 2013:

	Salary	**Bonus**	**Other Annual Compensation**	**Total**
Total of CEO and Four most highly compensated Executive Officers	P 29,373,750.00	P 9,791,250.00	none	P 39,165,000.00
All officers and directors as a group unnamed	P357,863,604.72	P 112,887,868.24	none	P451,551,472.96

The director's per diem amounts to P19.20M, 22.78M, 22.23M and P20.54M as of December 31, 2013, 2012, 2011 and 2010, respectively.

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 percent (4%).

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 and Officers as of December 31, 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 Accountant

In 2012, the Company engaged SGV & Co. as its external auditor. There were no changes in or disagreements with accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure during the past fiscal year.

The Bank paid its external auditor the following fees for the last three (3) years for professional services rendered:

Fiscal Year	Audit Fees and Other-related Fees	Tax Fees
2012	2,636,928	-0-
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.regulatory requirements. It is also their responsibility to evaluate and, when appropriate, to remove the independent public accountants.

The reappointment of SGV & Co. as the Bank's external auditor was approved by the Stockholders in the Annual Stockholders Meeting held last 28 March 2012.

There were no disagreements with respect to the transfer of the account, nor was there any accounting/auditing issue raised in this connection.

The reappointment of the said auditing firm as Independent Public Accountant for the year 2013 will be submitted to the stockholders by the Bank's Audit Committee for their confirmation and approval during the regular annual stockholders meeting.

Pursuant to Rule 68 of the Securities Regulation Code on the 5 year rotation requirement for the external auditor, the Audit Committee shall require the appointment of a new partner to handle and oversee the external audit of the Company's financial statements. The appointment of the duly qualified and SEC registered Independent Public Accountant shall be announced in the shareholders meeting for consideration and approval of the stockholders.

Duly authorized representatives of SGV & Co are expected to be present at the meeting where they will have the opportunity to respond to appropriate questions.

At present, the Audit Committee is composed of Mr. Raul O. Serrano (Chairman), Ms. Imelda S. Singzon, Mr. Bunsit Carlos G. Chung, Mr. Henry Y. Uy and Ms. Teresita Ang See.

Compensation Plans

No action pertaining to any plan involving the payment or distribution of cash or non-cash compensation will be taken during the Annual Meeting.

Action with Respect to Reports

The approval of the following will be considered and acted upon at the meeting:

1. Review and Approval of the Minutes of the Previous Meeting held on March 28, 2012
2. Ratification of Acts and Proceedings of the Board of Directors and Management
3. Report of the Results of Operations for the Years 2011 and 2012 and Approval thereof
4. Election of Directors
5. Amendment of the Article Second of the Articles of Incorporation of the Bank to allow the Bank to perform the functions of a expanded commercial (universal) bank
6. Appointment of External Auditor

Minutes of the Annual Meeting held on 28 March 2012 and resolutions of the Board of Directors since the date of the said Annual Stockholders Meeting will be made available for examination during office hours by the Corporate Secretary.

Amendment of Article Second of the Articles of Incorporation

In line with the new Bank's business strategy, management proposes to have the Bank apply for an expanded commercial banking license with the *Bangko Sentral ng Pilipinas*. In line with this, management proposes an amendment to Article Second of the Articles of Incorporation of the Bank which will now read, as follows (changes in boldface and underlined):

"SECOND – The objects and purposes for which this corporation is formed are:

1. <u>That the primary purpose for which the corporation is formed is to carry on and engage in the business of expanded commercial (universal) banking, to have and exercise, subject to the laws of the Philippines, all powers, rights, privileges and attributes of an expanded commercial bank, and such others powers and rights necessary in the course of its business and operations.</u>

2. To do, conduct and transact generally the business of <u>an expanded</u> commercial bank and to do all things and exercise all powers and perform all functions which a bank is authorized and empowered to do, exercise or perform under and by virtue of the laws of the Philippines, or which it may be by law hereafter authorized to do, exercise or perform: to receive deposits or money, deal in commercial paper, to make loans thereon, lend money on real

or personal property, discount bills, notes or other commercial papers and to buy and sell securities, gold and silver bullion, foreign coins or bills of exchange, and to do all things in this paragraph set forth as such commercial bank and in so far as is consistent with the laws of the Philippines, and generally to do all such other acts and things as shall seem to the corporation incidental or conducive to the attainment of the above objects and purposes, or any of them, as commercial bank;

3. To conduct a safe deposit business, and in the conduct of said safe deposit business to store and hold for others personal property and securities with or without compensation, and to maintain vaults and safes and receptacles therein for the storage, safe-depositing and safekeeping of personal property and securities, and to rent and hire such safes and receptacles to others upon such terms and conditions as the corporation may deem advisable.

4. To receive and care for money deposited in trust, arising from legacies, voluntary and other trusts, and judicial decrees, or in any other manner; to act as trustee under any mortgage or bonds issued by any municipality, body politic, or corporation, and to accept and execute any other municipal or corporate trust not inconsistent with law; to act as transfer agent of any corporation, and, in such capacity, to receive and disburse moneys, transfer, register and execute certificates of stock, bonds or other evidences of indebtedness, and to act as agent of any corporation, company or association, foreign or domestic, or of any individual within the purposes of a commercial bank; to act under the order of appointment or any court of record as guardian, receiver, trustee or depository of the estate of any minor, insane or weak-minded person, habitual drunkard, or other incompetent or irresponsible person, as assignee in bankruptcy, and as receiver and depository of any moneys paid into court by parties of any legal proceedings and of property of any kind that may be brought under the jurisdiction of any court by proper legal proceedings; to act as the executor of any last will and testament whenever named in such last will and testament, as the executor thereof; to act under appointment of any court of competent jurisdiction as the administrator of the estate of any deceased person with the will annexed or as the administrator of any deceased person when there is no will; to execute any legal trust confided to it by any court of record or any person, association or corporation for the holding, management and administration of any estate, real or personal, and the rents, issues, and profits thereof; to act as managing agent, adviser, consultant or administrator of investment management, advisory, and consultancy accounts; to establish, administer and maintain one or more common trust funds; and generally, to do all kinds of trust business permitted by law. (As amended on June 20, 2989)

5. To establish, maintain and conduct a branch or branches as may be allowed under the laws of the Philippines.

6. To buy and sell or otherwise negotiate securities, and borrow money upon securities owned by the Bank; to acquire by purchase, and to invest in, hold, sell or otherwise dispose of shares of stock, bonds, mortgages and other securities, or any, interest in either, or any obligations or evidences of any other corporation or corporations, domestic or foreign, or the notes, bonds,

mortgages or interest therein, or other obligations or evidences of indebtedness of any person or persons and while the owner of such shares, stocks, bonds, notes, mortgages or interest therein, or other obligations or evidences of indebtedness, to exercise all the rights, powers, and privileges of ownership, including the right to vote thereon or consent in respect thereof for any and all purposes; Provided, however, that investments in shares and stocks shall not at any time exceed thirty per centum (30%) of the paid capital and unimpaired surplus; and for any corporate purpose to borrow money, issue debentures, unsecured bonds, or bonds secured by collateral trust or other mortgage or mortgages upon, by pledge of, any of its property or otherwise and promissory notes and evidences of indebtedness of all kinds.

7. To issue, offer for sale, and sell options, warrants or other similar instruments over share of its capital stock upon such terms and conditions as the Board of Directors may determine. Such options, warrants or other similar instruments may be granted for a maximum period of three (3) years from the date such options, warrants or other similar instruments become effective.

8. <u>To exercise the powers of investment houses as provided in pertinent laws, to invest in the equity of non-allied undertaking and to own up to 100% of the equity of a financial intermediary other than a commercial bank or a bank authorized to provide commercial banking services in accordance with applicable laws and regulations."</u>

The foregoing proposal was already approved by the Board of Directors of the Bank during their regular meeting held on May 29, 2013. After the corporate approvals have been obtained, the Bank will secure the relevant regulatory approvals for it to secure an expanded commercial banking license.

Aside from the amendment of Article Second of the Articles of Incorporation of the Bank, there are no other items submitted for approval or consideration, other than those required in the ordinary course of business that requires approval or presentation to the shareholders of the Bank.

Other Matters

The following is a summary of the acts of Management since the last Annual Meeting in 2012 to date which will be submitted for ratification to the stockholders during the coming Annual Meeting:

1. Regular Meeting of the Board of Directors on April 24, 2012

The Bank was authorized to hire the following officers: Joel C. Muniz, James Arvin B. Ison, Melchor S. Pacudan, Mark Anthony T. Villanueva, Jose R. Ledesma and Margaret Y. Hernando.

The Bank approved the appointed of Ms. Rose Margaret Cuatico as Chief Compliance Officer and Head of the Compliance Group.

In the same meeting, the Board of Directors of the Bank was also authorized to approve the acceptance of a deposit for future subscription from the Jalandoni Group in the amount of Php800million. The amount will be used to subscribe the common shares of the Bank as soon as the increase in the authorized capital of the Bank is approved by the regulators. The subscription price per share will be an amount equivalent to Php27.88 plus interest at 4% per annum reckoned from the start of 2012 to the date the actual deposit is made.

2. Regular meeting of the Board of Directors on May 23, 2013

The Board of Directors of the Bank elected Mr. Eric O. Recto as Chairman of the Board and Mr. Roberto V. Ongpin as Co-Chairman of the Board.

The Bank was authorized to hire the following officers: Chirdsak A. Basa, Raymond C. Cadiz, Zosimo C. Lim, and Raquel B. Manago.

3. Regular Meeting of the Board of Directors on 27 June 2013

The Bank was authorized to hire Mr. Leslie G. Limsico as Deputy Treasurer and Chief Trading Officer with the rank of Senior Vice President.

The Bank approved the appointment of Atty. Jovita D.S. Larrazabal as Assistant Corporate Secretary.

4. Regular Meeting of the Board of Directors on July 26, 2012

5. Regular Meeting of the Board of directors on August 29, 2013

The Board of Directors elected Ms. Nina D. Aguas as President and Chief Executive Officer of the Bank.

The Bank approved the appointment of Messrs. Edgar J. Sia II and Jesus S. Jalandoni, Jr. as Board Advisors.

The Bank was authorized to hire the following officers: Mr. Horatio S. Aycardo, EVP & Chief Operating Officer, Ms. Ma. Alicia Arnaldo, SVP & Head of Corporate Planning and Marketing, Mr. Bremel Peter R. Guiao, FVP & Head of Credit Policy and Review Group and Ms. Agnes A. Bacani, AVP and Product Marketing Head.

The Bank was likewise authorized to promote Mr. Razon J. Morales and Mr. Jaime B. Sanchez from Senior Manager to Assistant Vice President.

6. Regular Meeting of the Board of Directors on September 26, 2013

The Bank was authorized to hire the following officers: Ms. Maria Cristina Bonifacio, FVP & Head of the Human Resources Group, Ms. Mary Geraldine L. Nakpil, FVP & Head of the Sales and Distribution Group under the Retail Banking Segment, Mr. Patrick Peter R. Santos, FVP for Commercial and Corporate Lending, Mr. Renato L. Canlas, AVP and OIC of the Financial Evaluation Division under the Credit Policy and Review Group, Mr. Haris P. Alcantara, AVP & Head of Collections Unit of Consumer Finance Group under Retail Banking Segment.

The Board also approved the reorganization of the different committees of the board. The following lists the new composition of these committees:

A. Executive Committee

Gregorio T. Yu (Chairman)
Eric O. Recto (Vice Chairman)
Nina D. Aguas

D. Audit Committee

Raul O. Serrano (Chairman)
Imelda S. Singzon
Bunsit Carlos G. Chung

Imelda S. Singzon
Roberto M. Macasaet, Jr.
Raul O. Serrano
Mario J. Locsin
Ralph C. Nubla, Jr. (alternate)
Bunsit Carlos G. Chung (alternate)
Henry Y. Uy (alternate)

B. Risk Management Committee

Roberto M. Macasaet, Jr. (Chairman)
Gregorio T. Yu
Ralph C. Nubla, Jr.
Imelda S. Singzon
Bunsit Carlos G. Chung
Henry Y. Uy
Teresita Ang See

E. Trust Committee

Eric O. Recto (Chairman)
Roberto M. Macasaet, Jr.
Ralph C. Nubla, Jr.
Nina D. Aguas (Pres. & CEO)
Raul C. Diaz (Trust Officer)

C. Governance Committee

Jose P. Leviste, Jr. (Chairman)
Raul O. Serrano
Ralph C. Nubla, Jr.
Eric O. Recto
Teresita Ang See

7. Regular Meeting of the Board of Directors on October 30, 2012

The Bank was authorized to hire the following officers: Mr. Victor Q. Lim, EVP & Head of Retail Banking Segment, Mr. Emmanuel S. Santiago, EVP & Head of Institutional Banking Segment, Mr. Jose Julian E. Baduria, Jr., Ms. Ma. Rosario O. Reyes, Ms. Carminia B. Rodriguez, Mr. Michael Z. Pua, and Mr. Angelo Ramon F. Fabella.

The Bank also approved the appointment/designation of Mr. Juan B. Estioko (Internal Audit Group and Ms. Evelyn Vinluan (Risk Management Group)

8. Regular Meeting of the Board of Directors on December 12, 2012

The Bank approved the appointment of Ms. Nina D. Aguas as regular member of the Risk Management Committee and Mr. Henry Y. Uy as alternate member of this committee.

The Bank was authorized to hire the following officers: Mr. Raul Martin J. Uson, FVP & Head of Branch Operations Group under the Operations and Technology Segment, Mr. Wilbert Te Lim, FVP & VisMin Area Head, Ms. Alma Roxanne Arvisu, VP and Operations Head Manager under the Operations and Technology Segment.

The Bank was authorized to promote the following officers from Senior Manager to Assistant Vice President: Mr. Aaron Jay T. Luy, Ms. Rose Mary C. Hao, Ms. Ana Marie O. Perez, Mr. Nestor C. Mangrobang and Mr. Dennis R. Dayan.

9. Regular Meeting of the Board of Directors on January 28, 2013

The members of the Board of Directors elected Mr. Jesus S. Jalandoni, Jr. as an Independent Director of the Bank.

The Bank was authorized to hire the following officers: Mr. Philip Edward S. Sagun, Mr. Armando A. Inabangan, Jr., Mr. Primitivo Noel S. Lagman, Jr., Ms. Sareena R. Tengco, Ms. Ella May E. Navallo, Mr. David D. Brackeen, Mr. Amiel S. Crisologo, Ms. Leonor V. Madola, Ms. Nazarena Leilani A. Carbon, Ms. Alma G. Quiogue, Ms. Melinda M. De Jesus, Ms. Maela M. Laqueo, Ms. Manolita Y. Palma, Mr. Daniel L. Ang Tan Chai, EVP & Chief Finance Officer and Ms. Arlene M. Dato, SVP & Controller.

10. Regular Meeting of the Board of Directors on 27 February 2013

The Bank was authorized to hire the following officers: Mr. Geronimo D. Yap III, Ms. Melissa Angela L. Henson, Ms. Connie Barcenas and Ms. Helen G. Oleta.

11. Regular Meeting of the Board of Directors March 22, 2013

The Bank has approved the calling of the 2013 Annual Stockholders' Meeting on June 25, 2013 at 10AM at The Alpha Tents, Alphaland Southgate Tower, 2258 Chino Roces Ave. cor. EDSA, Makati City.

The Bank was authorized to hire the following officers: Ms. Ma. Minerva A. Nieto, Mr. Ulysses G. Mina, Mr. Miguel S. Santana.

Voting Procedures

The vote required for acts requiring stockholders approval is at least a majority of the outstanding capital stock except for the amendment of Article Second of the Articles of Incorporation which requires the affirmative vote of shareholders representing at least two-thirds of the outstanding capital stock.

In the election of directors, the fifteen (15) nominees with the greatest number of votes will be elected directors.

Every stockholder entitled is entitled to one vote. However, with respect to the election of directors, the stockholders may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected, or he may distribute them on the same principle among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Corporation multiplied by the number of directors to be elected.

The method of counting the votes of the shareholders shall be in accordance with the general provisions of the Corporation Code of the Philippines. Method of voting shall be conducted by show of hands unless a shareholder requires a poll to be made on any action. In such case, the method of counting votes shall be done by secret. Counting of votes shall be supervised by the Corporate Secretary and/or Assistant Corporate Secretary with the supervision and assistance of representatives from Sycip, Gorres Velayo and Co.

FINANCIAL AND OTHER INFORMATION

Financial Statements

The Audited Financial Statements of the Bank for the fiscal year ended December 31, 2012 is hereby attached for reference. Copies of the audited financial statements for the period ended December 31, 2012 shall be made available to the stockholders during the Annual Stockholders' Meeting on June 25, 2013.

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 the *Bangko Sentral ng Pilipinas* (BSP) on December 24, 1993 and operated as such until the year 2000. In order to concentrate on its core strengths and maximize utilization of available resources, the Bank applied with the BSP 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, 2012. 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 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.

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

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

On December 27, 2011, the Chung and Nubla Groups had reinvested ₱2.4 Billion as deposits for futures subscription to PBCom shares of stock. Another ₱0.4 Billion was deposited in March 2012 and additional P22 Million in April 2012 to complete their commitment of approximately P2.8 Billion.

On May 31, 2012, the LFM Properties Group deposited P0.72 Billion for future subscription to PBCom shares of stock. Another P30 Million was deposited by the LFM Properties Group on October 24, 2012.

On March 11, 2013, the Securities and Exchange Commission approved the Bank's capital restructuring.

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.

Business of Registrant

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 traveler'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.

Contribution to revenue

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

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

Distribution Methods of Products and Services

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.

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

Competition

As of December 31, 2012, 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.

Patents, Trademarks, Licenses, Franchises, Concessions, and Royalty

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

Customers

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.

Transaction with and/ or Dependence on Related Parties

The Bank's related parties include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members, associates and post-employment benefits for the benefit of the Bank's employee.

As required by BSP, the Bank discloses loan transactions with its associates, affiliates and with certain directors, officers, stockholders and related interests (DOSRI). As of December 31, 2012 the Bank is in compliance with such regulations.

The Bank's related party transactions are presented and discussed in Note 28 of the Audited Financial Statements.

Effect of Existing or Probable Government Regulations

Bangko Sentral ng Pilipinas

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, 2012 stood at P4.561 billion while its capital to risk assets ratio under the new BASEL II reporting standards covering credit, market and operational risks as reported to BSP remained well above the 10% prescribed cap at 20.45%.

Bureau of Internal Revenue

Republic Act 9337 took effect on November 1, 2005 amending some portions of the National Internal Revenue Code, some significant amendments were the increase of the Income Tax Rate from 32% to 35% up to 2008 and will be decreased to 30% starting 2009, increase of Gross Receipts Tax rate from 5% to 7% of income other than those on lending activities. On May 24, 2007, The Tax Amnesty law (RA 9480) took effect. Said law covers all national internal revenue tax liabilities for 2005 and prior years. A taxpayer availing of the tax amnesty shall enjoy immunity from penalties and audit. Accordingly, PBCom availed of the tax amnesty in 2008.

Research and Development Activities

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

Employees

As of December 31, 2012 the Bank had 1,013 employees with 557 officers and 456 rank and file employees. All rank and file employees are subject to a new 3-year collective bargaining agreement signed last April 12, 2013. There had been neither dispute nor occurrence of employees' strike for the past three years.

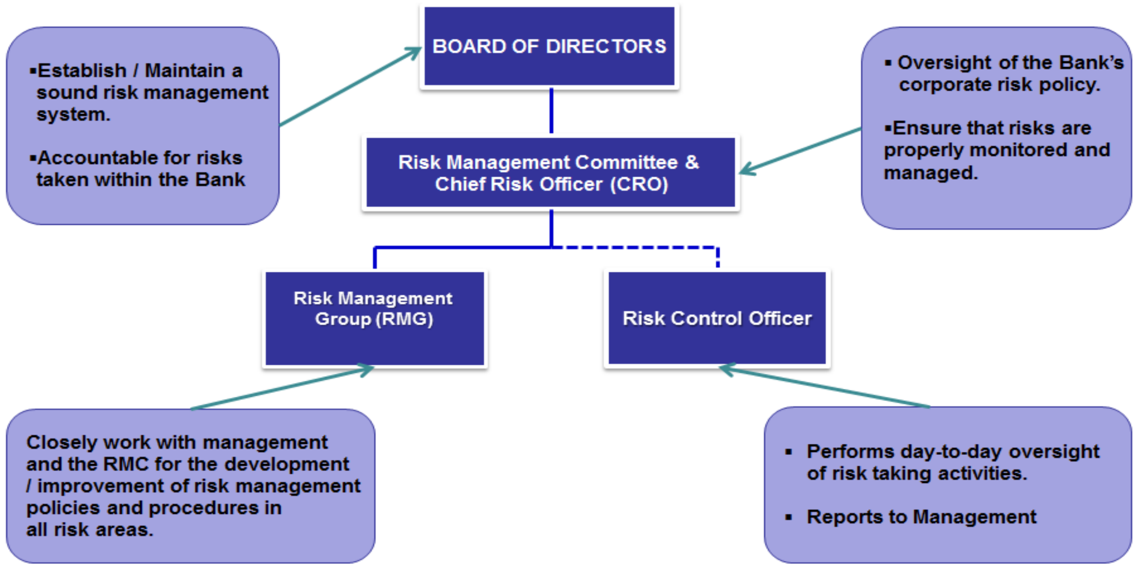
The Bank expects to increase the current level of employees within the next twelve (12) months in line with its growth and transformation strategy.

Risk Management

PBCom's risk mission, objectives and philosophy are based on the strategy that for 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 six members of the Board of Directors who possess adequate knowledge of the Bank's risk exposures. 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.

With the Bank undergoing significant changes that will certainly affect and reflect on its risk management style, the Risk Management Committee and Risk Management Group focused its resources in further solidifying the structure of its Risk Management System in the face of anticipated advancements in organizational structure, methodologies and philosophies.



Enterprise Risk Management (ERM)

As PBCom re-envisioned its strategic objectives, enlivened its corporate image, and reinforced its human capital while initiating modernization of its core banking system, hardware, and other business applications to introduce and support its renewed range of products and services, it boosted its risk management capability by embracing Enterprise Risk Management initiatives and embedding these in the Bank's operations. PBCom invested in an ERM process assessment to strengthen its risk management structure and effectively manage its institutional risks that covered among others:

- A diagnostic review of the Bank's ERM process.
- Recommendations to address improvement areas based on industry-best practices.
- Develop the appropriate tools, templates and guidelines in implementing an enhanced ERM process.

Risk and Control Self-Assessment

One of the foremost products of these Enterprise Risk Management initiatives enabled the Bank to take a fresh perspective in re-designing its risk profiling process. We codified a new *risk identification process*, a *risk and control self-assessment process*, and a *risk aggregation and prioritization process* that consequently enabled the documentation, collation and analysis of the top key residual risks of the Bank. When integrated into the Bank's ICAAP, PBCom will be able to bolster its capital management assessment process through a more accurate capital charge computation covering the eight risk categories.

Capital Management

The Bank actively manages its capital base to cover risks inherent in the business. The amount of capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Bangko Sentral ng Pilipinas (BSP) in overseeing the Bank.

The primary objective of the Bank's capital management system is to ensure that the Bank complies with regulatory capital requirements under BSP's Revised Risk-Based Capital Adequacy Framework and those of the Financial Assistance Agreement with the Philippine Deposit Insurance Corporation (PDIC). In managing its capital, the Bank can maintain strong credit ratings and healthy capital ratios to support its business and to maximize shareholders' value.

ICAAP

The Bank has implemented an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP methodology adopted by the bank involves, first, an assessment of whether the risks covered by the Framework – credit risk, market risk and operational risk – are fully captured; second, an assessment of other risks the Bank is exposed to which are not fully captured and covered under the Framework and an assessment of how much capital to allocate against these other risks.

The Bank has complied in full with its regulatory capital requirements. The Board approved 2012 ICAAP report was submitted to the BSP on January 31, 2013.

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which is comprised of paid-up common and preferred stock, surplus including current year's profit and surplus reserves less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests, 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 reserve 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 assessments of the individual exposure given by eligible external credit assessment. For off-balance sheet assets, the risk weights are calculated by multiplying the notional principal amount by the appropriate credit conversion factor.

Market risk capital charge is computed 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 currency 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.

Market & Liquidity Risk Management

<u>Market Risk</u>
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. In addition, stress testing is practiced to determine the earnings impact of extreme market movements not captured by VaR calculations. Moreover, a system of risk limits that reflect the Bank's level of capital, expected returns and the overall risk appetite is utilized to manage market risk. These limits include the VAR limit, Nominal Position limit, Stop-loss limit, Management Action Trigger (MAT) limit, and Limit Utilization Thresholds. Guidelines & process flows for deriving market and liquidity risk limits have also been established. These guidelines link the limits to the BOD approved bankwide risk appetite, strategic direction, current financial resources, and

capital position. Furthermore, the Bank also employs BSP's Risk Assessment System to assess its market risk and uses Risk Index sourced through a vendor provider to complement the result of the market stress testing and to monitor system-wide financial stress condition.

Interest Rate Risk in the Banking Book (IRRBB)
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments affecting the Bank's Net Interest Income and Net Worth. 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.

In particular, substantial portion of the total loan portfolio is in short-term placements (less than one year), while majority of its medium-term placements are on a floating-rate basis. Floating rate loans are repriced periodically with 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 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.

PBCom likewise uses Earnings-at-Risk (EAR) and Economic Value-at-Risk (EVAR) as a primary measurement tool for the Bank's exposure to IRRBB and Repricing Gap Reports which include all Balance Sheet items that are interest rate sensitive.

In managing the IRRBB, the Bank implements tolerance level for EAR to limit the impact to the Bank's Net Interest Income given an assumed change in interest rate. Likewise, the Bank also employs stress testing particular to IRRBB and relates the result to the capital to assess its adequacy to cover losses under assumed interest rate shocks.

Likewise, the RMC and the Board approved the framework for 2013 risk appetite articulation that integrates IRRBB as a component.

Liquidity Risk
Liquidity risk is the current and prospective risk to earnings or to capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Bank in its regular liquidity risk assessment, employs the BSP Liquidity Risk Assessment System, comparative assessment of PBCOM liquidity indicators as against the Banking industry as a whole, movements in peso deposits, contingency funding sources, analysis of on-/off-balance sheet liquidity gap position, liquidity stress testing, and compliance to Maximum Cumulative Outflow (MCO) limit.

Operational Risk Management

Operational risk is the risk to earnings or capital from inadequate or failed internal processes, people and systems or from external events. The primary tool in controlling operational risk is an effective system of internal controls embedded within operating units of the Bank, and practiced by every employee as part of the organization's culture. With risk being inherent in the business of banking and considering the energetic transformation of PBCom, the Bank acknowledges the challenge of enabling the organization's growth while balancing its risks.

Aside from securing adequate insurance coverage 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 governing day-to-day operations.

Proactively, the Bank has implemented a robust operational risk identification, assessment, monitoring, control and reporting system in each operating unit of the Bank. As a standard risk management tool, Risk and Control Self-Assessment (RCSA) is conducted periodically throughout the organization. This is supplemented by the Operational Losses and Key Risk Indicators Reports which is 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 promote a culture of risk awareness and control consciousness, the Bank through its Risk Management Group conducts seminars and workshops on Operational Risk Management participated in by different units of the Bank. The Risk Management Group likewise continuously recommends and implements risk management policies while holding interactive consultations with the operating units. Head Office support units underwent the bankwide risk profiling process to further address risk issues and enhance effectiveness of control.

Branch Operations

The management of branch operational risk also dynamically changed in step to the brisk transformation of PBCom. Our branches underwent two iterations of the risk profiling process that saw the latter activity identify and assess the risks to focus on and further reduce. We streamlined the documentation and reporting process of operational losses and risk indicators so our frontline can focus more on customer service. Moreover, the branch operational processes were mapped and reviewed where streamlining projects were undertaken to reduce turn-around time. Coupled with the reorganization of the operating structure, further training of employees and new innovative products and services, these endeavors serve to position the Bank for that unique PBCom experience for existing and potential clients without sacrificing internal control.

Technology

As the Bank embarked on investing in major IT projects and IT enabled services, a more robust management of IT risk became an imperative. The Risk Management Group has actively participated in consultative meetings with vendors and business users, workshops, risk assessments, and policy making which aim to leverage optimal value of the Bank's technology investments within acceptable levels of risks.

On an on-going basis, the Bank strives to continuously improve the IT risk management process by updating its tools which significantly includes:

- Enhancement and roll-out of the existing risk profiles for Information Technology that included operational risk factors such as risk sources and attributes and risk treatment plans, covering the IT organizational functions, and
- Establishment of a risk profiling mechanism over the systems and applications supporting various business units and IT functions.
- Periodic review of the technology risk management framework vis-à-vis new regulatory requirements.

Trust

Trust risk is the risk to the Bank of breaching its fiduciary capacity as trustee, investment manager or as mandated by law or regulation. Having account management, trading, investment and operations functions, Trust is exposed to two types of risks. The first type is *Risk to Clients*, which are credit, market and liquidity risks. The second type is *Risk to the Trust Entity*, which covers operational, compliance, strategic and reputational risks.

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 functions on trust services. The Risk Management Group spearheads the effective implementation of the enterprise risk management process through:

a. *Operational Losses and Key Risk Indicators Reports* to analyze, manage and monitor the risk profile of trust;
b. BOD-approved Trust Risk Management Policies to guide Trust in managing risks associated with organization, account management, trading, investment and operations functions;
c. Periodic Risk Assessment to identify, quantify and assess fiduciary risks;
d. Risk limits to monitor actual risk exposure against approved risk tolerance level;
e. Stress testing of UITF portfolio to measure the earnings impact to market movements that are considered "extreme" but possible; and,
f. Conducts seminars and meetings with concerned risk-takers to effectively promote risk awareness.

Credit

Credit risk is the risk to earnings when the counterparty is unable to pay obligations on time and in full as previously contracted. The Bank has established an internal credit 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 is employed to manage credit exposures.

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 pricing.

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 regulations.

The credit risk management function involves identifying inherent risks related to transactions or processes executed with respect to all lending-related activities. In line with this function, the Risk Management Group employs the *Operational Losses and Key Risk Indicators Report* to monitor the risk profile of the Bank's lending and support groups and to establish internal loss and key risk indicator databases.

In 2012 the Bank strengthened its pre-approval review process of all accounts requiring Executive Committee approval. The Bank also initiated a Credit Process re-engineering project aimed at streamlining the credit initiation up to disbursement process.
An assessment of the loan portfolio is done through 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 developments in the credit environment that can affect the borrower's business and ultimately the quality of the Bank's portfolio within a 12-month scenario. It allows management to determine the capital impact of any large loan exposures to corporate borrowers.

b. Specific Impairment Test - is performed on loan accounts whose outstanding principal balances and booked Accrued Interest Receivable (AIR) fall within selected criteria.

c. Collective Impairment Test – The Bank computes its collective impairment using probability of default (PD) and loss given default (LGD) ratios.

Consumer Finance

With the creation in 2012 of the PBCom Consumer Finance Group to enable the Bank to position itself in the consumer banking business, the Bank instituted several risk controls for performance monitoring, a system to assist the business and policies to guide the business conduct:

- Performance Monitoring
  - > Monthly Business Credit Reports
  - > Status and updates on Business Initiatives
  - > Portfolio Credit Performance
  - > Customer Surveys
  - > Market Surveys
- Business Management System
  - > Loan Originating and Collections System to allow seamless workflow to facilitate a faster turn-around time and efficient collection strategies.
- Policies:
  - > Approval of policies and procedures prior to launch of the product and dissemination to the stakeholders.

Business Continuity Management

The Bank employs a robust Business Continuity Planning process which is an operational risk management mitigation required by the *Bangko Sentral ng Pilipinas.*

The Bank complies with the FFIEC-recognized best practice of a four-step Business Continuity Planning approach, covering Business Impact Analysis, Risk Assessment, Risk Management and Risk Monitoring. In 2012, significant enhancements in the process were instituted that included improved BIA methodology, definition and synchronization of Recovery Time Objective (RTO) and Recovery Point Objective (RPO) and a more dynamic planning process proactively participated in by the business units.

Expanded Scope and Safeguards

The Risk Management Group also fortified its scope by the creation of two new specialized units: Financial Risk and Capital Management and Information Security to strengthen its safeguards in protecting its assets and its business.

Financial Risk and Capital Management

The Financial Risk and Capital Management Unit aims to establish financial risk management practices whose objective is not to prohibit or prevent risk taking activity, but to ensure that risks are consciously taken with full knowledge, clear purpose and understanding so that it can be measured and mitigated. It is tasked to principally oversee the Bank's compliance to regulatory capital requirement and the alignment of its capital and risk management processes with the ultimate goal of creating value within a defined risk-reward framework.

Information Security

PBCOM is committed to creating and maintaining an environment that protects information assets from accidental or intentional unauthorized use, modification, disclosure, destruction, or theft. The Information Security team aims to develop and maintain a comprehensive Information Security Program, covering functions related to Information Security Risk Management including risk assessments, risk and incident management and risk awareness and training.

The main intent is to create and implement an environment that:

- Protects information and technologies critical to the Bank.
- Protects information as mandated by laws and bank regulations.
- Protects confidential and sensitive information.
- Protects the bank from reputational risks associated with customer, client and employee privacy requirements.
- Complies with due diligence standards for the protection of information and technologies.
- Assigns responsibilities to relevant officers, executives, managers, personnel, contractors, and business partners.
- Protects physical resources and those physical resources entrusted to the bank.

Market Price and Dividends

Market Information

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

The stock prices for each quarter within the last two fiscal years and subsequent interim periods were as follows:

	2013		2012		2011	
	High	Low	High	Low	High	Low
First Quarter	73.00	73.00	86.00	84.00	55.00	54.50
Second Quarter			70.00	65.00	85.00	35.00
Third Quarter			81.00	78.00	126.00	45.00
Fourth Quarter			72.00	72.00	89.90	56.00

The latest traded price of PBCom shares as of April 30, 2013 was P70.00 per share.

Holders

As of 15 April 2013, there were 417 shareholders of the Bank's **299,564,555** issued and outstanding common shares.

The top 20 registered stockholders of the Bank as of 15 April 2013 are as follows:

Name of Shareholder	No. of Shares	%
Eric O. Recto	72,479,427	24.19%
ISM Communications Corporation	64,048,425	21.38%
Ralph C. Nubla, Jr.	51,779,374	17.28%
Telengtan Brothers and Sons, Inc.	31,859,844	10.64%
Langford Universal Finance, Ltd.	15,263,964	5.10%
LFM Properties Corporation	8,965,609	2.99%
Alegria Development Corporation	7,172,487	2.39%
La Suerte Workmen's Compensation Fund	7,056,103	2.36%
TTC Development Corporation	4,181,665	1.40%
Injap Investments, Inc.	3,581,706	1.20%
Roxas-Chua, Ray Anthony Go	3,581,706	1.20%
PCD Nominee Corporation	3,057,293	1.02%
Filipino – 3,009,043		
Non-Filipino – 48,250		
Valueline Realty & Development Corporation	2,868,995	0.96%
Gregorio T. Yu	1,790,863	0.60%
Edison Siy Cham	1,790,853	0.60%
Chan Kok Bin	1,790,853	0.60%
KLG International, Inc.	1,790,853	0.60%
Benito T. Lim	1,790,853	0.60%
Kanlaon Development Corporation	1,587,302	0.53%
Kanlaon Farms, Inc.	1,340,388	0.45%
OTHERS	11,785,991	3.93%
Total	**299,564,555**	**100%**

Dividends History

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

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.

Recent Sales of Unregistered or Exempt Securities

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

1. Full Fiscal years

Philippine Bank of Communications ("PBCom" or the "Bank") does not anticipate any cash flow or liquidity problems in the next 12 months after year-end 2012.

The Bank does not foresee any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

There were no significant elements of the Bank's income in 2012 that did not arise from continuing operations.

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.

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.

Financial Condition & Results of Operations

<u>Financial Condition & Results of Operations: 2012</u>

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

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

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

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

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

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

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

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

Financial Condition & Results of Operations: 2011

The entry of 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 previous reported and restated balances as disclosed in the 2011 Audited Financial Statements.			
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			
	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			
	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			
	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 stated	**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 from the reversal of provisions due to the full settlement of a fully provided NPL account amounting to P188M. This compensated for the decreases in revenue streams from securities trading and from Interest Income that was mainly due to the reduction in past due interest collections this year.

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

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

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

<u>Financial Condition & Results of Operations: 2010</u>

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

Total operating income improved by 17% from P2.15B in 2009 to P2.51B in 2010.Total operating expenses which 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 P2.259B and was attributed to the retroactive effect of the tainting of HTM investments for Banks that participated in the Bond Exchange program in 2010, the change in accounting policy on the measurement of investment properties from cost to fair value model as allowed under PAS 40, *Investment Properties*; and the correction of the accounting for the excess of the book value over the net realizable value of NPLs and real and other properties acquired which were sold to a SPV in 2004 in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* and PAS 40, respectively.

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

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

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

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

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

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

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

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

Material Changes from Period to Period

Statement of Condition: December 2012 vs. December 2011

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

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

(in thousands)	Increase (Decrease)	Percentage	Remarks
Interest Income on Trading and investment securities	37,238	2.96%	Attributed to the P3.7B increase in year-on-year average volume of securities holdings this year and adjustment on amortization of tax on discount & premium on AFS by P24M.
Interest Income on Loans and receivable	138,170	14.35%	Higher lending activities this year and accretion on value of MRT notes amounts to P204M due to reassessment on estimates on timing of settlement of investments due to rating upgrade of MRT III notes. However, it was partially offset by P177M due to maturity of PEACe bond last Oct 2011.
Interest Income on IBCL & SPURA	2,330	5.59%	Higher year-on-year average volume by P161M of investment in SPURA.
Interest Income on Deposit with other Banks and others	(19,272)	-55.87%	Due to implementation of BSP Circular 753 where deposits in compliance with the reserve requirements are no longer earn interest effective April 6, 2012.
Interest Income on Others	75,790	12.46%	Due to higher amortization of unearned income from Bills payable-PDIC for the year which was recognized as income over the life of the loan using effective interest method.
Interest Expense on Deposit Liabilities	(21,338)	-2.65%	Lower average deposit rates for Time deposits in the comparable by 0.20% despite increased year-on-year average volumes.
Interest Expense on Bills payable, borrowings and others	66,153	8.58%	Higher amortization of unamortized discount on Bills payable-PDIC as result of using effective interest method in measuring the FAA at fair value.
Trading and Securities Gain – net	518,088	219.53%	Favorable interest rate movement in the bond market resulted to more trading gains this year. .
Service Charges, Fees & Commissions	25,916	20.30%	Recognition of front-end fees from higher loan activities.
Income from Trust Operations	(4,322)	-21.93%	Competitive environment in the Trust business resulted to lower fees for this year
Rent Income	6,071	2.10%	The rental rates in PBCom tower improved during the year. This however was partly offset by slightly lower occupancy ratio towards the tail end of the year as part of office space for lease were occupied by the Bank to improve its operational efficiency.
Profit/(Loss) from Assets Sold/Exchanged	114,973	1,383.93%	Better sales and marketing program for ROPA properties resulted to higher gains on sale recognized this year.
Fair Value Gain	(319,431)	-101.43%	Last year's recognition of fair value gain from appraised value of investment properties as a result of Bank's change in accounting policy.
Foreign Exchange Gain (Loss) –Net	(21,596)	-47.06%	Volatile foreign exchange rates resulted to higher revaluation loss and lower realized gain from foreign exchange this year.
Miscellaneous Other Income	(17,182)	-61.25%	Last year's recognition of penalty charges on various defaulted loan borrower
Compensation and Fringe Benefits	115,205	18.51%	Hiring of additional key personnel and staffs during the year.
Depreciation & Amortization	19,085	32.45%	Investments were made to various furniture, IT infrastructures and desktop upgrade to improve operations of the Bank resulted to higher depreciation and amortization this year.
Occupancy and other equipment- related costs	6,514	7.20%	Higher expense on service providers and repairs and maintenance this year
Taxes and Licenses	29,063	9.87%	Combined effect of the increased revenues subject to gross receipt tax and higher documentary stamp tax expense on increased volume of term placements.
Miscellaneous	237,661	148.42%	Combination of last year's reversal of provision for tax

			assessment as a result of favorable ruling by P198M and higher management and profession fees this year.
Provision for impairment losses	(11,914)	-111.88%	Sufficient provision on loans last year resulted to lower booking this year
Provision for Income Tax	(75,377)	-20.62%	Last year's recognition of deferred tax arising from fair value gain on investment properties.

Key Performance Indicators

Ratio	Dec 2012	Dec 2011	Remarks
Net Profit Margin *(Net income divided by Gross income)*	21.45%	20.03%	The ratio slightly increased by 1.42% due to more profitable business particularly on the treasury operations.
Return on Average Asset *(Net income divided by Average assets)*	2.22%	1.99%	Growth in net income outpaced by the increase in Average Assets
Return on Average Equity *(Net income divided by Average equity)*	24.22%	41.84%	Decreased in ratio by 17.63% is due to higher average equity as a result of capital infusion during the year.
Capital Adequacy Ratio *(Qualifying capital divided by total of risk-weighted assets that include credit, market and operational risk)*	20.45%	25.98%	CAR ratio (as submitted to BSP) declined this year due to write-off of P4.98B as unamortized SPV loss. This however was tapered by an increased in capital by P1.3B due approved booking of appraisal increment on PBCom tower. The ratio is well above the 10% minimum required by BSP, covers credit, market and operational risk.
Basic Earnings per share *(Net income divided by average no. of common shares)*	5.61	4.61	An improved in earnings per share by P1 is due to higher net income this year.

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

Material Commitments for Capital Expenditures

There are no material commitments for capital expenditures.

Events that will Trigger Material Direct or Contingent Financial Obligation

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

The summary of the Bank's commitments and contingent liability are presented and discussed in Note 21 of the Audited Financial Statements.

2. Interim Period

Financial condition: March 31, 2013 vs December 31, 2012

Total assets stood at ₱47.89 Billion as of 31 March 2013 while total liabilities and equity amounted to ₱42.02 Billion and ₱5.87 Billion, respectively. Cash and Due from Banks increased by ₱924.5 Million from year-end level of ₱6.95 Billion. Likewise trading and investment securities went up by 15.67% or ₱2.63 Billion. On the other hand, Interbank and Loans and Receivable decreased by 9.79% or ₱1.66 Billion due to the aggressive collection effort of the Bank and partly to the decline in reverse repurchase agreements (RRPs) with the BSP that were directly matched with certain borrowings. With the adoption of BSP Circular 772 in 2013, the Bank's NPL ratio is -0.06% as of the quarter. Other assets increased by 67.23% or ₱138.26 Million mainly on higher prepaid expense that included payments of software maintenance and business licenses for the year and various investment projects capitalized as miscellaneous assets. On the liability side, through the Bank's prudent marketing strategy, its Deposit Liabilities compared to year-end level increased by ₱234.66 Million from the year-end level of ₱31.36 Billion. Likewise, Bills Payable increased by ₱527 Million due to higher deposit substitutes placements and amortization of discount on bills payable for the quarter. Accrued interest, taxes and other expenses increased by ₱123.3 Million or 44.8% due to accrual of expenses such as employee benefits and bonuses. Miscellaneous liabilities decrease by ₱159.13 Million mainly because of the reversal of unearned income brought about by accretion on borrowing from PDIC. Meanwhile, the Bank's capital base went up by ₱1.31 Billion from last year's level of ₱4.56 Billion due to the increase in unrealized gains from the mark-to-market valuation on its Available-for-Sale Financial Assets by ₱582.10 Million and net income for the period. The Bank's Risk-Based Capital Adequacy Ratio of 22.73% is well above the 10% minimum requirement. The ratio covers credit, market and operational risk for the first quarter of 2013.

Results of Operation: March 31, 2012 vs March 31, 2012

The Bank's earning capacity has improved year on year because of the new business focus and overall increase in business generating consciousness. Interest income rose by ₱12.96 Million mainly due to income on loans and receivable brought by more aggressive marketing strategies of the Bank. Trading gains are up by 93.82% to ₱958.8 Million due to the continued decline in interest rates while service charges, fees and commission likewise improved by 33.44% or ₱10.16 Million from same period last year. The Bank has embarked on creating a new image through renovating its branches to become more efficient and customer friendly. Along with this was the hiring of key personnel and staff to properly man the branches, coupled with new talents in the management team. All these contributed to the increase in Bank's operating expenses by ₱252.46 Million. The Bank posted a net income of ₱714.80 Million which is 44.98% higher than the same period last year of ₱493.03 Million.

Key Performance Indicators

Ratio	**Mar 2013**	**Dec 2012**	**Remarks**
Net Profit Margin *(Net income divided by Gross income)*	43.83%	41.75%*	Ratio improved by 2.08% due to more profitable operations during the year.
Return on Average Asset *(Net income divided by Average assets)*	6.10%	4.52%	Growth in net income outpaced by the increase in Average Assets
Return on Average Equity *(Net income divided by Average equity)*	54.82%	49.33%	Favorable increase is due to higher average equity coupled with favorable increase in Bank's profitability.
Capital Adequacy Ratio *(Qualifying capital divided by total of risk-weighted assets that*	22.73%	20.45%	The improvement in CAR ratio (as submitted to BSP) was due to increase in qualifying capital by P718M. The ratio covering credit, market and operational risk remains well above the 10%

include credit, market and operational risk)			minimum required by the BSP.
Basic Earnings per share *(Net income divided by average no. of common shares)*	3.33	2.86*	A decline earnings per share is attributed to increase in higher number of common shares.

*** As of March 2012**

Compliance with Leading Practices on Good Governance

The Board of Directors and Management of the Bank recognize that good corporate governance is key to achieving the Bank's objective of maximizing shareholder value. The institution of the Code on Corporate Governance seeks to provide the process and structure by which the business and affairs of the Company are directed and managed, in order to enhance long-term shareholder value through the enhancement of corporate performance and accountability.

Compliance with the Code of Corporate Governance is ensured by the Corporate Compliance Officer in coordination with the Chairman and President of the Bank. Regular meetings are made between Management and the Board of Directors, to review and evaluate the Bank's performance and address key policy matters. The Board is provided with timely and complete information for each meeting. Each director has direct access to the advice and services of management and the corporate secretary, and in appropriate circumstances, seek independent professional advice concerning the Company's affairs.

All directors are required to submit themselves for re-election every year. In consideration for their re-election, the nomination committee reviews and presents attendance and participation in meetings of the Bank.
All directors are briefed by Management on the Bank's business operations.

The audit committee first reviews the Bank's audited financials, who then recommends approval from the board of directors before they are presented to the stockholders of the Bank. It is also the audit committee, which ensures independence and objectivity of the external auditors.

The Bank is continually seeking measures of improving it's corporate governance to further enhance corporate performance and accountability. The Directors and Management have been encouraged to regularly attend corporate governance seminars and corporate governance consultants on methods by which it can enhance its corporate performance and accountability.

No deviation from the Bank's Manual Code of Corporate Governance has been noted. The Company's Manual on Corporate Governance was amended on May 2012.

UPON WRITTEN REQUEST OF A STOCHOLDER, THE BANK WILL PROVIDE, WITHOUT CHARGE, A COPY OF THE BANK'S SEC FORM 17-A (ANNUAL REPORT) DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.

All requests may be sent to the following address:

PHILIPPINE BANK OF COMMUNICATIONS
5th Floor PBCOM Tower
6795 Ayala Avenue cor. V.A. Rufino St.
Makati City, 1226

Attention: Rodolfo Ma. A. Ponferrada
Corporate Secretary

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 June 3, 2013.

PHILIPPINE BANK OF COMMUNICATIONS
Issuer

By:

RODOLFO MA. A. PONFERRADA
Corporate Secretary

Annex "A"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **TOMAS I. ALCANTARA**, Filipino, of legal age, and a resident of 6737 Ayala Avenue, Makati City, after having been sworn to in accordance with law, hereby depose and state that:

1. I am an independent director of the Philippine Bank of Communications (the "Bank");

2. I am affiliated with the following companies or organizations;

Company	Position/Relationship	Period of Service
PhilWeb Corporation	Independent Director	2002 – present
Alsons Consolidated Resources, Inc.	Chairman	2001 – present
Lima Land, Inc.	Chairman	2001 - present
Alson Development & Investment Corp.	Chairman	1996 - present
Sarangani Agricultural Co., Inc.	Chairman	1996 – present
Eagle Ridge Golf & Country Club	Chairman	2000 - present
Conal Holdings Corporation	Chairman	2001 - present
Holcim Philippines, Inc.	Director	2003 - present
European IT Service Center Foundation	Trustee	2002 – present
Foundation for Revenue Enhancement	Trustee	2004 - present
Alto Power Management Corporation	Chairman & President	2001 - present
DBP - Daiwa Securities Corporation	Independent Director	1995 - present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Bank as provided for in Section 38 of the Securities Regulations Code ("SRC") and its Implementing Rules and Regulations ("IRR");

4. I shall faithfully and diligently comply with my duties and responsibilities as an Independent Director under the SRC and its IRR; and

5. I shall inform the Corporate Secretary /Assistant Corporate Secretary of the Bank of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this _____ day of ________, 2013 at Makati City

TOMAS I. ALCANTARA
Affiant

SUBSCRIBED AND SWORN to before me this 05 - 28 - 13 at Makati City, affiant exhibiting to me his TIN ID No. 105-252-550.

Doc No. 263;
Page No. 54;
Book No. I;
Series on 2013.

JONATHAN T. ALTUBAR

Annex "B"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JESUS S. JALANDONI, JR.** Filipino, of legal age, and a resident of 153 Sarangani Street, Ayala Alabang Village, Muntinlupa City, Philippines, after having been sworn to in accordance with law, hereby depose and state that:

1. I am an Independent Director of the Philippine Bank of Communications (the "Bank").

2. I am affiliated with the following companies or organizations:

Company	Position/Relationship	Period of Service
Kanlaon Development Corporation	Vice President	1982 – Present
Kanlaon Farms, Inc.	Vice President	1983 – Present
Valueline Realty & Development Corp.	President	1985 – Present
JM & Co., Inc.	Director	1990 – Present
Personal Computer Specialists, Inc.	Director	1992 – Present
LFM Properties Corporation	President	1997 – Present
Premium Wine Exchange, Inc.	Treasurer	2003 – Present
Liberty Flour Mills	Director & Excom Member	2007 – Present
Enterprise Leasing Corporation	Executive Vice President	2007 – Present
Buendia Offices Condominium Corp.	President	2011 – Present
Alegria Development Corporation	President	2012 – Present
Second Midland Corporation	President	1999 - Present

3. I possess all the qualifications and none of the disqualificatios to serve as an Independent Director of the Bank as provided for in Section 38 of the Securities Regulations Code ("SRC") and its Implementing Rules and Regulations ("IRR").

4. I shall faithfully and diligently comply with my duties and responsibilities as an Independent Director under the SRC and its IRR.

5. I shall inform the Corporate Secretary /Assistant Corporate Secretary of the Bank of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this _____ day of ________ 2013 at Makati City

JESUS S. JALANDONI, JR.
Affiant

SUBSCRIBED AND SWORN to before me this 07 - 23 - 13 at Makati City, affiant exhibiting to me his TIN ID No. 108-130-694.

Doc No. 267
Page No. 55;
Book No. I;
Series on 2013.

JONATHAN T. ALTUBAR
Notary Public for Makati City

Annex "C"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JOSE P. LEVISTE, JR.**, Filipino, of legal age, and a resident of One Roxas Triangle, Paseo De Roxas, Makati City, after having been sworn to in accordance with law, hereby depose and state that:

1. I am an independent director of the Philippine Bank of Communications (the "Bank");

2. I am affiliated with the following companies or organizations;

Company	Position/Relationship	Period of Service
Alphaland Corporation	Independent Director	April, 2013 – present
OceanaGold Corporation	Director; Stockholder	2008 – present
Constellation Energy Corp. (Phils.)	Chairman of the Board of Directors; Stockholder	2008 - present
Italpinas Euroasia Design & Development Corp.	Chairman Emeritus; Stockholder	2008 – present
Enactus Philippines	Chairman & CEO	2008 – present
Pico De Loro Beach & Country Club	Director	2008 - present
OceanaGold (Phils.) Inc.	Chairman of the Board of Directors; Stockholder	2007 - present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Bank as provided for in Section 38 of the Securities Regulations Code ("SRC") and its Implementing Rules and Regulations ("IRR");

4. I shall faithfully and diligently comply with my duties and responsibilities as an Independent Director under the SRC and its IRR; and

5. I shall inform the Corporate Secretary /Assistant Corporate Secretary of the Bank of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this _____ day of ________, 2013 at Makati City

JOSE P. LEVISTE, JR.
Affiant

SUBSCRIBED AND SWORN to before me this ____________________ at Makati City, affiant exhibiting to me his TIN ID No. 119-457-661.

Doc No. 262;
Page No. 54;
Book No. I;
Series on 2013.

JONATHAN F. ALTUBAR
Notary Public for Makati City
8th Floor Telecoms Plaza Bldg.
316 Sen. Gil Puyat Ave., Makati City
Appointment No. M-31 until 31 December 2014
Roll of Attorney No. [illegible]
IBP No. [illegible]
PTR No. [illegible] Makati City
TIN No. 202-764-869-000 MCLE No. IV [illegible]

Annex "D"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ROBERTO M. MACASAET, JR.,** Filipino, of legal age, and a resident of 5378 Amorsolo St., Makati City, Philippines, after having been sworn to in accordance with law, hereby depose and state that:

1. I am an Independent Director of the Philippine Bank of Communications (the "Bank").

2. I am affiliated with the following companies or organizations:

Company	Position/Relationship	Period of Service
Associated Medical & Clinical Services, Inc.	President & CEO	2006 – Present
Maxicare Healthcare Corporation	Director	2009 – Present
Coconut Industry Investment Fund	Director	2011 – Present

3. I possess all the qualifications and none of the disqualificatios to serve as an Independent Director of the Bank as provided for in Section 38 of the Securities Regulations Code ("SRC") and its Implementing Rules and Regulations ("IRR").

4. I shall faithfully and diligently comply with my duties and responsibilities as an Independent Director under the SRC and its IRR.

5. I shall inform the Corporate Secretary /Assistant Corporate Secretary of the Bank of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this _____ day of May, 2013 at Makati City

ROBERTO M. MACASAET, JR.
Affiant

SUBSCRIBED AND SWORN to before me this 05 - 28 - 13 at Makati City, affiant exhibiting to me his TIN ID No. 100-232-246.

Doc No. 265;
Page No. 54;
Book No. I;
Series on 2013.

JONATHAN T. ALTUBAR
Notary Public for Makati City
8th Floor Telecoms Plaza Bldg.
316 Sen. Gil Puyat Ave., Makati City
Appointment No. M-31 until 31 December 2014
Roll of Attorney No. 48247
IBP [illegible]
PTR No. [illegible] Makati City
TIN No. 202-764-639-000 MCLE No. IV [illegible]

Annex "E"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **RAUL O. SERRANO**, Filipino, of legal age, and a resident of 27 Mahusay St., UP Village, diliman, Quezon City after having been sworn to in accordance with law, hereby depose and state that:

1. I am an independent director of the Philippine Bank of Communications (the "Bank");

2. I am affiliated with the following companies or organizations;

Company/Organization	Position/Relationship	Period of Service
Rotary Club of Diliman District 3780	Member	
Fairshare Marketing	Owner/Prop.	

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Bank as provided for in Section 38 of the Securities Regulations Code ("SRC") and its Implementing Rules and Regulations ("IRR");

4. I shall faithfully and diligently comply with my duties and responsibilities as an Independent Director under the SRC and its IRR; and

5. I shall inform the Corporate Secretary /Assistant Corporate Secretary of the Bank of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this _____ day of May, 2013 at Makati City

RAUL O. SERRANO
Affiant

SUBSCRIBED AND SWORN to before me this 05 - 28 - 13 at Makati City, affiant exhibiting to me his TIN ID No. 101-914-425.

Doc No. 266;
Page No. 55;
Book No. 1;
Series on 2013.

JONATHAN T. ALTUBAR
Notary Public for Makati City
8th Floor Telecoms Plaza Bldg.
316 Sen. Gil Puyat Ave., Makati City
Appointment No. [illegible] 2014
Roll of [illegible]
IBP No. 9[illegible]
PTR No. 3[illegible]
TIN No. 202[illegible]

Annex "F"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **TERESITA ANG SEE**, Filipino, of legal age, and a resident of 32 Anda St., Intramuros, Manila after having been sworn to in accordance with law, hereby depose and state that:

1. I am an independent director of the Philippine Bank of Communications (the "Bank");

2. I am affiliated with the following companies or organizations;

Company/Organization	Position/Relationship	Period of Service
Kaisa Heritage Foundation	Founding President/ Executive Trustee	1999 – present
Phil. National Police Foundation	Vice-Chairman	2011 – present
Kaisa Para Sa Kaunlaran	Adviser	2003 - present
Phil. Association for Chinese Studies	President	2009 – present
International Association for the Study of Chinese Overseas	Secretary - Treasurer	2008 - present
Yuchengco Foundation	Board Member	2012 – present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Bank as provided for in Section 38 of the Securities Regulations Code ("SRC") and its Implementing Rules and Regulations ("IRR");

4. I shall faithfully and diligently comply with my duties and responsibilities as an Independent Director under the SRC and its IRR; and

5. I shall inform the Corporate Secretary /Assistant Corporate Secretary of the Bank of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this _____ day of May, 2013 at Makati City

TERESITA ANG SEE
Affiant

SUBSCRIBED AND SWORN to before me this 05-28-13 at Makati City, affiant exhibiting to me his TIN ID No. 110-571-030.

Doc No. 264;
Page No. 14;
Book No. II;
Series on 2013.

JONATHAN L. ALTUBAR
Notary Public for Makati City
8th Floor Telecom Plaza Bldg.
316 Sen. Gil Puyat Ave., Makati City
Appointment ... 31 December 2014
...
TIN No. 202-704-669-000 MCLE ...

PHILIPPINE BANK OF COMMUNICATIONS

MANAGEMENT REPORT

For the
2013 Annual Meeting of Stockholders
Pursuant to SCR Rule 20 (4) (A)

A. AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED DECEMBER 31, 2012 AND 2013 1ST QUARTER REPORT

Please see attached Audited Financial Statements for the fiscal year ended December 31, 2012 and the 1st Quarter Report for the period ended March 31, 2013.

B. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

In 2012, the Company engaged SGV & Co. as its external auditor. There were no changes in or disagreements with accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure during the past fiscal year.

C. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

1. Full Fiscal years

Philippine Bank of Communications ("PBCom" or the "Bank") does not anticipate any cash flow or liquidity problems in the next 12 months after year-end 2012.

The Bank does not foresee any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

There were no significant elements of the Bank's income in 2012 that did not arise from continuing operations.

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.

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.

Financial Condition & Results of Operations

Financial Condition & Results of Operations: 2012

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

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

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

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

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

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

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

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

<u>Financial Condition & Results of Operations: 2011</u>

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 previous reported and restated balances as disclosed in the 2011 Audited Financial Statements.			
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			
	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			
	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			
	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 stated	**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 from the reversal of provisions due to the full settlement of a fully provided NPL account amounting to P188M. This compensated for the decreases in revenue streams from securities trading and from Interest Income that was mainly due to the reduction in past due interest collections this year.

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

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

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

Financial Condition & Results of Operations: 2010

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

Total operating income improved by 17% from P2.15B in 2009 to P2.51B in 2010.Total operating expenses which 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 P2.259B and was attributed to the retroactive effect of the tainting of HTM investments for Banks that participated in the Bond Exchange program in 2010, the change in accounting policy on the measurement of investment properties from cost to fair value model as allowed under PAS 40, *Investment Properties*; and the correction of the accounting for the excess of the book value over the net realizable value of NPLs and real and other properties acquired which were sold to a SPV in 2004 in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* and PAS 40, respectively.

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

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

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

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

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

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

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

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

Material Changes from Period to Period

Statement of Condition: December 2012 vs. December 2011

(in thousands)	Increase (Decrease)	Percentage	Remarks
Cash and Other Cash Items	181,934	49.28%	Higher cash reserves for December holidays in connection with more deposit clients of the Bank.
Due from BSP	(529,716)	-8.77%	BSP rules on lower reserve requirements from 21% to 18% resulted to lower amount maintained on Due from BSP account.
Due from Other Banks	372,331	72.32%	Higher balance in Foreign Banks is due to expected LC negotiations as of reporting date.
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)	(1,836,278)	-64.88%	Transfer of funds from investment in SPURA to other high yielding securities and lending activities in the period.
Available-for-Sale Investments	635,058	3.93%	Purchase of additional proprietary securities during the period.
Loans and Receivables	5,435,956	51.67%	More lending activities this year that resulted to higher receivable from customers and customers’ liab. on acceptance, import bills and TR .
Investment in an Associate	458	3.91%	Bank’s share on income of PBCom Finance for the year.
Property and Equipment	385,762	40.52%	Purchase of various infrastructures and transfer of certain floors in PBCom tower from investment properties to improve operational efficiency.
Investment Properties	(302,520)	-7.76%	Sale of ROPA properties and transfer of 18^{th} and half of 15^{th} floor of PBCom tower to bank premises.

Other Assets	67,149	48.49%	Purchase of software licenses for various systems and projects and creditable tax withheld booked during the year.
Demand Deposits	904,279	18.52%	Increase in demand and time deposits were due to reinforced strategies of the Retail Banking Segment to generate more deposits across all branches.
Savings Deposits	326,866	13.48%	
Time Deposits	2,307,278	11.25%	
Bills Payable	467,666	6.36%	The net effect of increased accretion on borrowing from PDIC by P707M and decline in deposit substitutes (P94M) and foreign currency inter-bank borrowings (P145M) in the comparable period.
Outstanding Acceptances	(24,684)	-43.30%	Lower bills of exchange accepted by the Bank
Manager's Checks	33,250	98.37%	Increase in un-negotiated MC's as of report date
Deferred tax liabilities - net	4,493	1.05%	Increased in deferred tax liabilities as a result of fair value movement in investment properties
Other Liabilities	(737,779)	-36.52%	Amortization of unearned income on the accretion of borrowing from PDIC.

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

(in thousands)	Increase (Decrease)	Percentage	Remarks
Interest Income on Trading and investment securities	37,238	2.96%	Attributed to the P3.7B increase in year-on-year average volume of securities holdings this year and adjustment on amortization of tax on discount & premium on AFS by P24M.
Interest Income on Loans and receivable	138,170	14.35%	Higher lending activities this year and accretion on value of MRT notes amounts to P204M due to reassessment on estimates on timing of settlement of investments due to rating upgrade of MRT III notes. However, it was partially offset by P177M due to maturity of PEACe bond last Oct 2011.
Interest Income on IBCL & SPURA	2,330	5.59%	Higher year-on-year average volume by P161M of investment in SPURA.
Interest Income on Deposit with other Banks and others	(19,272)	-55.87%	Due to implementation of BSP Circular 753 where deposits in compliance with the reserve requirements are no longer earn interest effective April 6, 2012.
Interest Income on Others	75,790	12.46%	Due to higher amortization of unearned income from Bills payable-PDIC for the year which was recognized as income over the life of the loan using effective interest method.
Interest Expense on Deposit Liabilities	(21,338)	-2.65%	Lower average deposit rates for Time deposits in the comparable by 0.20% despite increased year-on-year average volumes.
Interest Expense on Bills payable, borrowings and others	66,153	8.58%	Higher amortization of unamortized discount on Bills payable-PDIC as result of using effective interest method in measuring the FAA at fair value.
Trading and Securities Gain – net	518,088	219.53%	Favorable interest rate movement in the bond market resulted to more trading gains this year. .
Service Charges, Fees & Commissions	25,916	20.30%	Recognition of front-end fees from higher loan activities.
Income from Trust Operations	(4,322)	-21.93%	Competitive environment in the Trust business resulted to lower fees for this year
Rent Income	6,071	2.10%	The rental rates in PBCom tower improved during the year. This however was partly offset by slightly lower occupancy ratio towards the tail end of the year as part of office space for lease were occupied by the Bank to improve its operational efficiency.
Profit/(Loss) from Assets Sold/Exchanged	114,973	1,383.93%	Better sales and marketing program for ROPA properties resulted to higher gains on sale recognized this year.

Fair Value Gain	(319,431)	-101.43%	Last year's recognition of fair value gain from appraised value of investment properties as a result of Bank's change in accounting policy.
Foreign Exchange Gain (Loss) –Net	(21,596)	-47.06%	Volatile foreign exchange rates resulted to higher revaluation loss and lower realized gain from foreign exchange this year.
Miscellaneous Other Income	(17,182)	-61.25%	Last year's recognition of penalty charges on various defaulted loan borrower
Compensation and Fringe Benefits	115,205	18.51%	Hiring of additional key personnel and staffs during the year.
Depreciation & Amortization	19,085	32.45%	Investments were made to various furniture, IT infrastructures and desktop upgrade to improve operations of the Bank resulted to higher depreciation and amortization this year.
Occupancy and other equipment- related costs	6,514	7.20%	Higher expense on service providers and repairs and maintenance this year
Taxes and Licenses	29,063	9.87%	Combined effect of the increased revenues subject to gross receipt tax and higher documentary stamp tax expense on increased volume of term placements.
Miscellaneous	237,661	148.42%	Combination of last year's reversal of provision for tax assessment as a result of favorable ruling by P198M and higher management and profession fees this year.
Provision for impairment losses	(11,914)	-111.88%	Sufficient provision on loans last year resulted to lower booking this year
Provision for Income Tax	(75,377)	-20.62%	Last year's recognition of deferred tax arising from fair value gain on investment properties.

Key Performance Indicators

Ratio	**Dec 2012**	**Dec 2011**	**Remarks**
Net Profit Margin *(Net income divided by Gross income)*	21.45%	20.03%	The ratio slightly increased by 1.42% due to more profitable business particularly on the treasury operations.
Return on Average Asset *(Net income divided by Average assets)*	2.22%	1.99%	Growth in net income outpaced by the increase in Average Assets
Return on Average Equity *(Net income divided by Average equity)*	24.22%	41.84%	Decreased in ratio by 17.63% is due to higher average equity as a result of capital infusion during the year.
Capital Adequacy Ratio *(Qualifying capital divided by total of risk-weighted assets that include credit, market and operational risk)*	20.45%	25.98%	CAR ratio (as submitted to BSP) declined this year due to write-off of P4.98B as unamortized SPV loss. This however was tapered by an increased in capital by P1.3B due approved booking of appraisal increment on PBCom tower. The ratio is well above the 10% minimum required by BSP, covers credit, market and operational risk.
Basic Earnings per share *(Net income divided by average no. of common shares)*	5.61	4.61	An improved in earnings per share by P1 is due to higher net income this year.

Interest income on non-discounted loans is recognized based on the accrual method of accounting while unearned discounts are amortized to income over the terms of the loans. As such, there are no seasonal aspects that materially impact on the Bank's interest revenues. Non-interest revenues, on the other hand, are largely dependent on market dynamics and economic trends rather than on seasonal factors.

Material Commitments for Capital Expenditures

There are no material commitments for capital expenditures.

Events that will Trigger Material Direct or Contingent Financial Obligation

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

The summary of the Bank's commitments and contingent liability are presented and discussed in Note 21 of the Audited Financial Statements.

2. Interim Period

<u>Financial condition: March 31, 2013 vs December 31, 2012</u>

Total assets stood at ₱47.89 Billion as of 31 March 2013 while total liabilities and equity amounted to ₱42.02 Billion and ₱5.87 Billion, respectively. Cash and Due from Banks increased by ₱924.5 Million from year-end level of ₱6.95 Billion. Likewise trading and investment securities went up by 15.67% or ₱2.63 Billion. On the other hand, Interbank and Loans and Receivable decreased by 9.79% or ₱1.66 Billion due to the aggressive collection effort of the Bank and partly to the decline in reverse repurchase agreements (RRPs) with the BSP that were directly matched with certain borrowings. With the adoption of BSP Circular 772 in 2013, the Bank's NPL ratio is -0.06% as of the quarter. Other assets increased by 67.23% or ₱138.26 Million mainly on higher prepaid expense that included payments of software maintenance and business licenses for the year and various investment projects capitalized as miscellaneous assets. On the liability side, through the Bank's prudent marketing strategy, its Deposit Liabilities compared to year-end level increased by ₱234.66 Million from the year-end level of ₱31.36 Billion. Likewise, Bills Payable increased by ₱527 Million due to higher deposit substitutes placements and amortization of discount on bills payable for the quarter. Accrued interest, taxes and other expenses increased by ₱123.3 Million or 44.8% due to accrual of expenses such as employee benefits and bonuses. Miscellaneous liabilities decrease by ₱159.13 Million mainly because of the reversal of unearned income brought about by accretion on borrowing from PDIC. Meanwhile, the Bank's capital base went up by ₱1.31 Billion from last year's level of ₱4.56 Billion due to the increase in unrealized gains from the mark-to-market valuation on its Available-for-Sale Financial Assets by ₱582.10 Million and net income for the period. The Bank's Risk-Based Capital Adequacy Ratio of 22.73% is well above the 10% minimum requirement. The ratio covers credit, market and operational risk for the first quarter of 2013.

<u>Results of Operation: March 31, 2012 vs March 31, 2012</u>

The Bank's earning capacity has improved year on year because of the new business focus and overall increase in business generating consciousness. Interest income rose by ₱12.96 Million mainly due to income on loans and receivable brought by more aggressive marketing strategies of the Bank. Trading gains are up by 93.82% to ₱958.8 Million due to the continued decline in interest rates while service charges, fees and commission likewise improved by 33.44% or ₱10.16 Million from same period last year. The Bank has embarked on creating a new image through renovating its branches to become more efficient and customer friendly. Along with this was the hiring of key personnel and staff to properly man the branches, coupled with new talents in the management team. All these contributed to the increase in Bank's operating expenses by ₱252.46 Million. The Bank posted a net income of ₱714.80 Million which is 44.98% higher than the same period last year of ₱493.03 Million.

Key Performance Indicators

Ratio	**Mar 2013**	**Dec 2012**	**Remarks**
Net Profit Margin *(Net income divided by Gross income)*	43.83%	41.75%*	Ratio improved by 2.08% due to more profitable operations during the year.
Return on Average Asset *(Net income divided by Average assets)*	6.10%	4.52%	Growth in net income outpaced by the increase in Average Assets
Return on Average Equity *(Net income divided by Average equity)*	54.82%	49.33%	Favorable increase is due to higher average equity coupled with favorable increase in Bank's profitability.
Capital Adequacy Ratio *(Qualifying capital divided by total of risk-weighted assets that include credit, market and operational risk)*	22.73%	20.45%	The improvement in CAR ratio (as submitted to BSP) was due to increase in qualifying capital by P718M. The ratio covering credit, market and operational risk remains well above the 10% minimum required by the BSP.
Basic Earnings per share *(Net income divided by average no. of common shares)*	3.33	2.86*	A decline earnings per share is attributed to increase in higher number of common shares.

*** As of March 2012**

3. Audit and Audit Related Fees

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 Bank paid its external auditor the following fees for the last three (3) years for professional services rendered:

Fiscal Year	Audit Fees and Other-related Fees	Tax Fees
2012	2,636,928	-0-
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.

The reappointment of SGV & Co. as the Bank's external auditor was approved by the Stockholders in the Annual Stockholders Meeting held last 28 March 2012.

There were no disagreements with respect to the transfer of the account, nor was there any accounting/auditing issue raised in this connection.

The reappointment of the said auditing firm as Independent Public Accountant for the year 2013 will be submitted to the stockholders by the Bank's Audit Committee for their confirmation and approval during the regular annual stockholders meeting.

Pursuant to Rule 68 of the Securities Regulation Code on the 5 year rotation requirement for the external auditor, the Audit Committee shall require the appointment of a new partner to handle and oversee the external audit of the Company's financial statements. The appointment of the duly qualified and SEC registered Independent Public Accountant shall be announced in the shareholders meeting for consideration and approval of the stockholders.

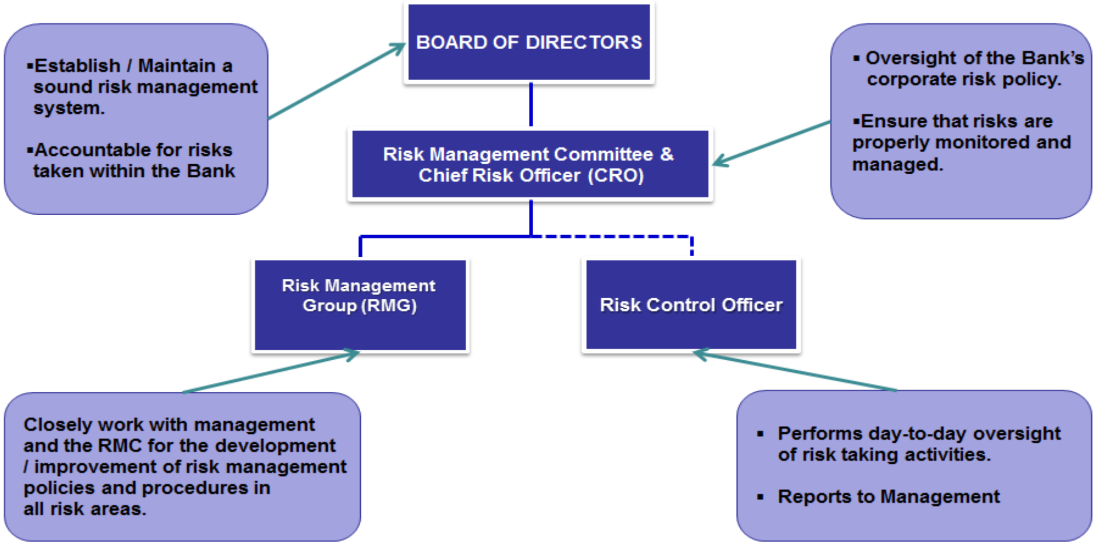
Duly authorized representatives of SGV & Co are expected to be present at the meeting where they will have the opportunity to respond to appropriate questions.

4. Financial Risk Management

BCom'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 six members of the Board of Directors who possess adequate knowledge of the Bank's risk exposures. 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.

With the Bank undergoing significant changes that will certainly affect and reflect on its risk management style, the Risk Management Committee and Risk Management Group focused its resources in further solidifying the structure of its Risk Management System in the face of anticipated advancements in organizational structure, methodologies and philosophies.



Enterprise Risk Management (ERM)

As PBCom re-envisioned its strategic objectives, enlivened its corporate image, and reinforced its human capital while initiating modernization of its core banking system, hardware, and other business applications to introduce and support its renewed range of products and services, it boosted its risk management capability by embracing Enterprise Risk Management initiatives and embedding these in the Bank's operations. PBCom invested in an ERM process assessment to strengthen its risk management structure and effectively manage its institutional risks that covered among others:

- A diagnostic review of the Bank's ERM process.
- Recommendations to address improvement areas based on industry-best practices.
- Develop the appropriate tools, templates and guidelines in implementing an enhanced ERM process.

Risk and Control Self-Assessment

One of the foremost products of these Enterprise Risk Management initiatives enabled the Bank to take a fresh perspective in re-designing its risk profiling process. We codified a new *risk identification process*, a *risk and control self-assessment process*, and a *risk aggregation and prioritization process* that consequently enabled the documentation, collation and analysis of the top key residual risks of the Bank. When integrated into the Bank's ICAAP, PBCom will be able to bolster its capital management assessment process through a more accurate capital charge computation covering the eight risk categories.

Capital Management

The Bank actively manages its capital base to cover risks inherent in the business. The amount of capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Bangko Sentral ng Pilipinas (BSP) in overseeing the Bank.

The primary objective of the Bank's capital management system is to ensure that the Bank complies with regulatory capital requirements under BSP's Revised Risk-Based Capital Adequacy Framework and those of the Financial Assistance Agreement with the Philippine Deposit Insurance Corporation (PDIC). In managing its capital, the Bank can maintain strong credit ratings and healthy capital ratios to support its business and to maximize shareholders' value.

ICAAP

The Bank has implemented an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP methodology adopted by the bank involves, first, an assessment of whether the risks covered by the Framework – credit risk, market risk and operational risk – are fully captured; second, an assessment of other risks the Bank is exposed to which are not fully captured and covered under the Framework and an assessment of how much capital to allocate against these other risks.

The Bank has complied in full with its regulatory capital requirements. The Board approved 2012 ICAAP report was submitted to the BSP on January 31, 2013.

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which is comprised of paid-up common and preferred stock, surplus including current year's profit and surplus reserves less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests, 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 reserve 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 assessments of the individual exposure given by eligible external credit assessment. For off-balance sheet assets, the risk weights are calculated by multiplying the notional principal amount by the appropriate credit conversion factor.

Market risk capital charge is computed 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 currency 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.

Market & Liquidity Risk Management

<u>Market Risk</u>
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. In addition, stress testing is practiced to determine the earnings impact of extreme market movements not captured by VaR calculations. Moreover, a system of risk limits that reflect the Bank's level of capital, expected returns and the overall risk appetite is utilized to manage market risk. These limits include the VAR limit, Nominal Position limit, Stop-loss limit, Management Action Trigger (MAT) limit, and Limit Utilization Thresholds. Guidelines & process flows for deriving market and liquidity risk limits have also been established. These guidelines link

the limits to the BOD approved bankwide risk appetite, strategic direction, current financial resources, and capital position. Furthermore, the Bank also employs BSP's Risk Assessment System to assess its market risk and uses Risk Index sourced through a vendor provider to complement the result of the market stress testing and to monitor system-wide financial stress condition.

Interest Rate Risk in the Banking Book (IRRBB)
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments affecting the Bank's Net Interest Income and Net Worth. 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.

In particular, substantial portion of the total loan portfolio is in short-term placements (less than one year), while majority of its medium-term placements are on a floating-rate basis. Floating rate loans are repriced periodically with 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 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.

PBCom likewise uses Earnings-at-Risk (EAR) and Economic Value-at-Risk (EVAR) as a primary measurement tool for the Bank's exposure to IRRBB and Repricing Gap Reports which include all Balance Sheet items that are interest rate sensitive.

In managing the IRRBB, the Bank implements tolerance level for EAR to limit the impact to the Bank's Net Interest Income given an assumed change in interest rate. Likewise, the Bank also employs stress testing particular to IRRBB and relates the result to the capital to assess its adequacy to cover losses under assumed interest rate shocks.

Likewise, the RMC and the Board approved the framework for 2013 risk appetite articulation that integrates IRRBB as a component.

Liquidity Risk
Liquidity risk is the current and prospective risk to earnings or to capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Bank in its regular liquidity risk assessment, employs the BSP Liquidity Risk Assessment System, comparative assessment of PBCOM liquidity indicators as against the Banking industry as a whole, movements in peso deposits, contingency funding sources, analysis of on-/off-balance sheet liquidity gap position, liquidity stress testing, and compliance to Maximum Cumulative Outflow (MCO) limit.

Operational Risk Management

Operational risk is the risk to earnings or capital from inadequate or failed internal processes, people and systems or from external events. The primary tool in controlling operational risk is an effective system of internal controls embedded within operating units of the Bank, and practiced by every employee as part of the organization's culture. With risk being inherent in the business of banking and considering the energetic transformation of PBCom, the Bank acknowledges the challenge of enabling the organization's growth while balancing its risks.

Aside from securing adequate insurance coverage 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 governing day-to-day operations.

Proactively, the Bank has implemented a robust operational risk identification, assessment, monitoring, control and reporting system in each operating unit of the Bank. As a standard risk management tool, Risk and Control Self-Assessment (RCSA) is conducted periodically throughout the organization. This is supplemented by the Operational Losses and Key Risk Indicators Reports which is 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 promote a culture of risk awareness and control consciousness, the Bank through its Risk Management Group conducts seminars and workshops on Operational Risk Management participated in by different units of the Bank. The Risk Management Group likewise continuously recommends and implements risk management policies while holding interactive consultations with the operating units. Head Office support units underwent the bankwide risk profiling process to further address risk issues and enhance effectiveness of control.

Branch Operations

The management of branch operational risk also dynamically changed in step to the brisk transformation of PBCom. Our branches underwent two iterations of the risk profiling process that saw the latter activity identify and assess the risks to focus on and further reduce. We streamlined the documentation and reporting process of operational losses and risk indicators so our frontline can focus more on customer service. Moreover, the branch operational processes were mapped and reviewed where streamlining projects were undertaken to reduce turn-around time. Coupled with the reorganization of the operating structure, further training of employees and new innovative products and services, these endeavors serve to position the Bank for that unique PBCom experience for existing and potential clients without sacrificing internal control.

Technology

As the Bank embarked on investing in major IT projects and IT enabled services, a more robust management of IT risk became an imperative. The Risk Management Group has actively participated in consultative meetings with vendors and business users, workshops, risk assessments, and policy making which aim to leverage optimal value of the Bank's technology investments within acceptable levels of risks.

On an on-going basis, the Bank strives to continuously improve the IT risk management process by updating its tools which significantly includes:

- Enhancement and roll-out of the existing risk profiles for Information Technology that included operational risk factors such as risk sources and attributes and risk treatment plans, covering the IT organizational functions, and
- Establishment of a risk profiling mechanism over the systems and applications supporting various business units and IT functions.
- Periodic review of the technology risk management framework vis-à-vis new regulatory requirements.

Trust

Trust risk is the risk to the Bank of breaching its fiduciary capacity as trustee, investment manager or as mandated by law or regulation. Having account management, trading, investment and operations functions, Trust is exposed to two types of risks. The first type is *Risk to Clients*, which are credit, market and liquidity risks. The second type is *Risk to the Trust Entity*, which covers operational, compliance, strategic and reputational risks.

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 functions on trust services. The Risk Management Group spearheads the effective implementation of the enterprise risk management process through:

a. *Operational Losses and Key Risk Indicators Reports* to analyze, manage and monitor the risk profile of trust;
b. BOD-approved Trust Risk Management Policies to guide Trust in managing risks associated with organization, account management, trading, investment and operations functions;
c. Periodic Risk Assessment to identify, quantify and assess fiduciary risks;
d. Risk limits to monitor actual risk exposure against approved risk tolerance level;
e. Stress testing of UITF portfolio to measure the earnings impact to market movements that are considered "extreme" but possible; and,
f. Conducts seminars and meetings with concerned risk-takers to effectively promote risk awareness.

Credit

Credit risk is the risk to earnings when the counterparty is unable to pay obligations on time and in full as previously contracted. The Bank has established an internal credit 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 is employed to manage credit exposures.

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 pricing.

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 regulations.

The credit risk management function involves identifying inherent risks related to transactions or processes executed with respect to all lending-related activities. In line with this function, the Risk Management Group employs the *Operational Losses and Key Risk Indicators Report* to monitor the risk profile of the Bank's lending and support groups and to establish internal loss and key risk indicator databases.
In 2012 the Bank strengthened its pre-approval review process of all accounts requiring Executive Committee approval. The Bank also initiated a Credit Process re-engineering project aimed at streamlining the credit initiation up to disbursement process.

An assessment of the loan portfolio is done through 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 developments in the credit environment that can affect the borrower's business and ultimately the quality of the Bank's portfolio within a 12-month scenario. It allows management to determine the capital impact of any large loan exposures to corporate borrowers.

b. Specific Impairment Test - is performed on loan accounts whose outstanding principal balances and booked Accrued Interest Receivable (AIR) fall within selected criteria.

c. Collective Impairment Test – The Bank computes its collective impairment using probability of default (PD) and loss given default (LGD) ratios.

Consumer Finance

With the creation in 2012 of the PBCom Consumer Finance Group to enable the Bank to position itself in the consumer banking business, the Bank instituted several risk controls for performance monitoring, a system to assist the business and policies to guide the business conduct:

- Performance Monitoring
  - Monthly Business Credit Reports
  - Status and updates on Business Initiatives
  - Portfolio Credit Performance
  - Customer Surveys
  - Market Surveys
- Business Management System
  - Loan Originating and Collections System to allow seamless workflow to facilitate a faster turn-around time and efficient collection strategies.
- Policies:
  - Approval of policies and procedures prior to launch of the product and dissemination to the stakeholders.

Business Continuity Management

The Bank employs a robust Business Continuity Planning process which is an operational risk management mitigation required by the *Bangko Sentral ng Pilipinas.*

The Bank complies with the FFIEC-recognized best practice of a four-step Business Continuity Planning approach, covering Business Impact Analysis, Risk Assessment, Risk Management and Risk Monitoring. In 2012, significant enhancements in the process were instituted that included improved BIA methodology, definition and synchronization of Recovery Time Objective (RTO) and Recovery Point Objective (RPO) and a more dynamic planning process proactively participated in by the business units.

Expanded Scope and Safeguards

The Risk Management Group also fortified its scope by the creation of two new specialized units: Financial Risk and Capital Management and Information Security to strengthen its safeguards in protecting its assets and its business.

<u>Financial Risk and Capital Management</u>

The Financial Risk and Capital Management Unit aims to establish financial risk management practices whose objective is not to prohibit or prevent risk taking activity, but to ensure that risks are consciously taken with full knowledge, clear purpose and understanding so that it can be measured and mitigated. It is tasked to principally oversee the Bank's compliance to regulatory capital requirement and the alignment of its capital and risk management processes with the ultimate goal of creating value within a defined risk-reward framework.

Information Security

PBCOM is committed to creating and maintaining an environment that protects information assets from accidental or intentional unauthorized use, modification, disclosure, destruction, or theft. The Information Security team aims to develop and maintain a comprehensive Information Security Program, covering functions related to Information Security Risk Management including risk assessments, risk and incident management and risk awareness and training.

The main intent is to create and implement an environment that:

- Protects information and technologies critical to the Bank.
- Protects information as mandated by laws and bank regulations.
- Protects confidential and sensitive information.
- Protects the bank from reputational risks associated with customer, client and employee privacy requirements.
- Complies with due diligence standards for the protection of information and technologies.
- Assigns responsibilities to relevant officers, executives, managers, personnel, contractors, and business partners.
- Protects physical resources and those physical resources entrusted to the bank.

D. BUSINESS AND GENERAL INFORMATION

Business Development

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

PBCom acquired a license to operate as an expanded commercial bank from the *Bangko Sentral ng Pilipinas* (BSP) on December 24, 1993 and operated as such until the year 2000. In order to concentrate on its core strengths and maximize utilization of available resources, the Bank applied with the BSP 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, 2012. 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 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.

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

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

On December 27, 2011, the Chung and Nubla Groups had reinvested ₱2.4 Billion as deposits for futures subscription to PBCom shares of stock. Another ₱0.4 Billion was deposited in March 2012 and additional P22 Million in April 2012 to complete their commitment of approximately P2.8 Billion.

On May 31, 2012, the LFM Properties Group deposited P0.72 Billion for future subscription to PBCom shares of stock. Another P30 Million was deposited by the LFM Properties Group on October 24, 2012.

On March 11, 2013, the Securities and Exchange Commission approved the Bank's capital restructuring.

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.

<u>Business of Registrant</u>

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 checkwriting facility, PDC warehousing, deposit pick-up, payroll service, SSSNet and Taxlink or e-FPS . Ancillary services such as safety deposit boxes and manager's, gift checks, POS, bills payment and e-shopping facility, all via Bancnet for PBCom cardholders 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 and domestic letters of credit, foreign and domestic stand-by LCs, trust receipts, export packing credits & bills purchase, clean and documentary collections, import bills/ customer's liabilities under acceptances, trade receivables/ payables financing, and bank guaranty.

Credit and loan facilities include short term peso commercial loans, check discounting facility, foreign currency loans, export packing credit loans, trust receipt financing, consumer lending, guarantee programs and specialized lending programs such as mortgage and contract-to-sell financing.

Treasury products include dealership in government securities, money market placement and commercial paper trading.

Trust services include investment management services, group investment plan, mortgage trust indentures/ collateral trust, unit investment trust funds (UITFs), , escrow agency services, employee benefit trust services estate planning, custodianship.

Contribution to revenue

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

The Bank does not maintain any branch or sales office abroad such that all revenues are generated domestically.

Distribution Methods of Products and Services

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

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

Competition

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

Patents, Trademarks, Licenses, Franchises, Concessions, and Royalty

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

Customers

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.

Transaction with and/ or Dependence on Related Parties

The Bank's related parties include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members, associates and post-employment benefits for the benefit of the Bank's employee.

As required by BSP, the Bank discloses loan transactions with its associates, affiliates and with certain directors, officers, stockholders and related interests (DOSRI). As of December 31, 2012 the Bank is in compliance with such regulations.

The Bank's related party transactions are presented and discussed in Note 28 of the Audited Financial Statements.

Effect of Existing or Probable Government Regulations

Bangko Sentral ng Pilipinas

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, 2012 stood at P4.561 billion while its capital to risk assets ratio under the new BASEL II reporting standards covering credit, market and operational risks as reported to BSP remained well above the 10% prescribed cap at 20.45%.

Bureau of Internal Revenue

Upon effectivity of Republic Act No. 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.

Research and Development Activities

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

Employees

As of December 31, 2012 the Bank had 1,013 employees with 557 officers and 456 rank and file employees. All rank and file employees are subject to a new 3-year collective bargaining agreement signed last April 12, 2013. There had been neither dispute nor occurrence of employees' strike for the past three years.

The Bank expects to increase the current level of employees within the next twelve (12) months in line with its growth and transformation strategy.

Legal Proceedings

The Bank is not aware of any legal proceeding including without limitation to 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.

E. MARKET PRICE OF AND DIVIDENDS ON THE COMPANY'S COMMON EQUITY

Market Information

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

The stock prices for each quarter within the last two fiscal years and subsequent interim periods were as follows:

	2013		2012		2011	
	High	Low	High	Low	High	Low
First Quarter	73.00	73.00	86.00	84.00	55.00	54.50
Second Quarter			70.00	65.00	85.00	35.00
Third Quarter			81.00	78.00	126.00	45.00
Fourth Quarter			72.00	72.00	89.90	56.00

The latest traded price of PBCom shares as of April 30, 2013 was P70.00 per share.

Holders

As of 15 April 2013, there were 417 shareholders of the Bank's **299,564,555** issued and outstanding common shares.

The top 20 registered stockholders of the Bank as of 15 April 2013 are as follows:

Name of Shareholder	No. of Shares	%
Eric O. Recto	72,479,427	24.19%
ISM Communications Corporation	64,048,425	21.38%
Ralph C. Nubla, Jr.	51,779,374	17.28%
Telengtan Brothers and Sons, Inc.	31,859,844	10.64%
Langford Universal Finance, Ltd.	15,263,964	5.10%
LFM Properties Corporation	8,965,609	2.99%
Alegria Development Corporation	7,172,487	2.39%
La Suerte Workmen's Compensation Fund	7,056,103	2.36%
TTC Development Corporation	4,181,665	1.40%
Injap Investments, Inc.	3,581,706	1.20%
Roxas-Chua, Ray Anthony Go	3,581,706	1.20%
PCD Nominee Corporation	3,057,293	1.02%
Filipino – 3,009,043		
Non-Filipino – 48,250		
Valueline Realty & Development Corporation	2,868,995	0.96%

Gregorio T. Yu	1,790,863	0.60%
Edison Siy Cham	1,790,853	0.60%
Chan Kok Bin	1,790,853	0.60%
KLG International, Inc.	1,790,853	0.60%
Benito T. Lim	1,790,853	0.60%
Kanlaon Development Corporation	1,587,302	0.53%
Kanlaon Farms, Inc.	1,340,388	0.45%
Others	11,785,991	3.93%
Total	**299,564,555**	**100%**

Dividends History

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

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.

Recent Sales of Unregistered or Exempt Securities

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

F. COMPLIANCE WITH CORPORATE GOVERNANCE

The Board of Directors and Management of the Bank recognize that good corporate governance is key to achieving the Bank's objective of maximizing shareholder value. The institution of the Code on Corporate Governance seeks to provide the process and structure by which the business and affairs of the Company are directed and managed, in order to enhance long-term shareholder value through the enhancement of corporate performance and accountability.

Compliance with the Code of Corporate Governance is ensured by the Corporate Compliance Officer in coordination with the Chairman and President of the Bank. Regular meetings are made between Management and the Board of Directors, to review and evaluate the Bank's performance and address key policy matters. The Board is provided with timely and complete information for each meeting. Each director has direct access to the advice and services of management and the corporate secretary, and in appropriate circumstances, seek independent professional advice concerning the Company's affairs.

All directors are required to submit themselves for re-election every year. In consideration for their re-election, the nomination committee reviews and presents attendance and participation in meetings of the Bank.

All directors are briefed by Management on the Bank's business operations.

The audit committee first reviews the Bank's audited financials, who then recommends approval from the board of directors before they are presented to the stockholders of the Bank. It is also the audit committee, which ensures independence and objectivity of the external auditors.

The Bank is continually seeking measures of improving its corporate governance to further enhance corporate performance and accountability. The Directors and Management have been encouraged to regularly attend corporate governance seminars and corporate governance consultants on methods by which it can enhance its corporate performance and accountability.

No deviation from the Bank's Manual Code of Corporate Governance has been noted. The Company's Manual on Corporate Governance was amended on May 2012.

The Company will furnish the stockholders a copy of SEC Form 17-A upon written request to:

The Corporate Secretary
5th Floor PBCOM Tower
6795 Ayala Avenue cor. V.A. Rufino Street
Makati City, 1226'

COVER SHEET

PW-686
SEC Registration Number

PHILIPPINE BANK OF COMMUNICATIONS
(Company's Full Name)

PBCom Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City
(Business Address: No. Street City/Town/Province)

Daniel L. Ang Tan Chai
(Contact Person)

830-7000
(Company Telephone Number)

12 31
Month *Day*
(Fiscal Year)

AAFS
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

383
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

PBCOM
Philippine Bank of Communications

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Philippine Bank of Communications (the Company) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012, 2011 and 2010, including the additional components attached therein, in accordance with the prescribed Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the Stockholders.

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

ERIC O. RECTO
Chairman of the Board

NINA D. AGUAS
President and Chief Executive Officer

DANIEL L. ANG TAN CHAI
Chief Finance Officer

Signed this **27th** day of **February 2013**

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) SS.

APR 0 2 2013

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

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Book No. 29
Series of 2013

ATTY. HOBERT N. LUZ
NOTARY PUBLIC
Until December 31, 2013
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PTR #3685485, Jan. 16, 2013-Makati
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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Bank of Communications (the Bank) which comprise the statements of financial position as at December 31, 2012 and 2011 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2012 and 2011 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2012, in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 32 and 33 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Bank of Communications. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

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

February 27, 2013

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF FINANCIAL POSITION

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

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF INCOME

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

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF CHANGES IN EQUITY

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

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF CASH FLOWS

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

(Forward)

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

OPERATIONAL CASH FLOWS FROM INTEREST

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

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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2. Accounting Policies

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

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine peso and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see accounting policy on foreign currency translation). The financial statements of these units are combined after eliminating inter-unit accounts and transactions.

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

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

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

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

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

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

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

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

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable and securities purchased under resale agreements (SPURA) with original maturities of three months or less from dates of placements and that are subject to insignificant risks of changes in value.

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

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

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

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

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

Where the current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using valuation techniques, which includes discounted cash flow technique and comparison to similar instruments for which observable market prices exists.

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

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

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

Financial instruments designated at FVPL
Financial instruments classified in this category are designated by management on initial recognition when any of the following criteria is met:

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

Financial instruments designated at FVPL are initially recognized in the statement of financial position at fair value. Changes in fair value of financial instruments designated at FVPL are recorded in 'Trading and securities gain - net' in the statement of income. Interest earned or incurred is recognized as 'Interest income' or 'Interest expense', respectively, in the statement of income.

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

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

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

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

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

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

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

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

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

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

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and with fixed maturities for which the Bank has the positive intention and ability to hold to maturity. If the Bank were to sell more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as AFS investments. Furthermore, the Bank would be prohibited to classify any financial assets as HTM investments for the following two years.

After initial recognition, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in profit or loss when HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables
This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA' and 'Loans and receivable'. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

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

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as designated as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include government securities, treasury notes and shares of stock.

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

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain - net' in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a specific identification basis. Interest earned on holding AFS investments are reported as 'Interest income' using the EIR. Dividends earned on holding AFS investments are recognized in the statement of income as 'Miscellaneous income' when the right of payment has been established. The losses arising from impairment of such investments are recognized as 'Provisions for credit and impairment losses' in the statement of income.

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

They are classified as such when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

Reclassification of financial assets
A financial asset is reclassified out of the FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new amortized cost, as applicable.

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

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

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

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

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

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

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.

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

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

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

Property and Equipment
Property and equipment, except land, are stated at cost less accumulated depreciation and amortization and impairment in value. Land is stated at appraised value less any impairment in value. The appraisal values were determined by professionally qualified and independent appraisers. The revaluation increment resulting from revaluation is credited to 'Revaluation increment on land' under OCI, net of applicable deferred tax.

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

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

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

EUL of components of property and equipment are as follows:

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

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment. Likewise, the asset's residual values are reviewed, and adjusted if appropriate, at each financial year end.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units to which the assets are related to are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

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

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

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

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

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

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

Intangible Assets
Intangible assets consist of software costs and branch licenses.

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

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

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

Recoverable amount is the higher of an asset's [or cash-generating unit's (CGU's)] fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs.

Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

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

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

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

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

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

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

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

Deposit for Future Stock Subscription
Deposit for future stock subscriptions refer to the payments made by stockholders of the Bank on subscription to the increase in the authorized capital which cannot be directly credited to capital stock issued pending approval by the BSP and registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. Under the Financial Reporting Bulletin 006 issued in 2012, an entity should not consider a deposit for future subscription as an equity instrument unless all of the following elements are present:
a. There is a lack or insufficiency of authorized unissued shares of stock to cover the deposit;
b. The entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and
c. An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC.

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

Revenue Recognition

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

Interest income

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

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

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

When calculating the EIR, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Service charges and penalties

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

Fees and commissions

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

Trading and securities gain - net

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

Dividends

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

Rental

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

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

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

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

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

The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the statement of income when the net cumulative unrecognized actuarial gains and losses of the plan at the end of the previous reporting year exceeded 10.00% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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

Leases

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

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

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

Bank as lessee

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

Bank as lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases.

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

Income Taxes

Current tax

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

Deferred tax

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

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

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

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

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

Provisions

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense' in the statement of income.

Contingent Assets and Liabilities

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

Earnings Per Share

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

Diluted EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive potential common shares. As of December 31, 2012 and 2011, the Bank does not have dilutive potential common shares.

Dividends on Common and Preferred Shares

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

Segment Reporting
The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Bank's assets producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

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

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

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

Effective 2013
PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements.

It also includes the issues raised in Standing Interpretations Committee (SIC) - 12, *Consolidation – Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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

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

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

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of January 1, 2013. Its disclosure requirements need not be applied in comparative information provided for periods before its initial application. The Bank anticipates that the adoption of this standard will result in more extensive disclosures in the financial statements, considering it currently carries its investment properties at fair value.

PAS 1, *Financial Statement Presentation: Presentation of Items of Other Comprehensive Income*
The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendments only affect presentation and have no impact on the Bank's financial position or performance. The amendments will be applied retrospectively and will result in the modification of the presentation of items of OCI.

PAS 19, *Employee Benefits* (Revised)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording.

The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Bank has to apply the amendments retroactively to the earliest period presented.

The Bank reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Bank obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard.

The effects are detailed below:

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

	2012	2011
Statement of income		
Retirement expense	**(₱16,698,611)**	(₱16,632,142)

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements.

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

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

Effective 2014
PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

While the amendment is expected not to have any impact on the net assets of the Bank, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Bank is currently assessing impact of the amendments to PAS 32.

Effective 2015
PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition.

A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI.

The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

Philippine Interpretation IFRIC15, *Agreement for Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Bank.

Annual Improvements to PFRSs (2009-2011 cycle)

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

- PFRS 1, *First-time Adoption of PFRS,* clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Bank as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements,* clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements.

  On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

- PAS 16, *Property, Plant and Equipment,* clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Bank's financial position or performance.

- PAS 32, *Financial Instruments: Presentation,* clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Bank expects that this amendment will not have any impact on its financial position or performance.

- PAS 34, *Interim Financial Reporting* clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Bank's financial position or performance.

3. Significant Accounting Judgments and Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Estimates</u>

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

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

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

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

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

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

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

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

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

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

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

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

f) *Impairment of nonfinancial assets*
Investment in an associate and property and equipment
The Bank assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value-in-use (VIU) approach for investment in an associate and fair value less cost to sell approach for property and equipment. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

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

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

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

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

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

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

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

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

The expected rate of return on plan assets of the Bank was based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the statements of financial position dates. Refer to Note 24 for the details of assumption used in the calculation.

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

k) Recognition of deferred taxes

Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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

4. Fair Value Measurement

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

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

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

Derivative Assets

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

AFS Investments

Debt securities

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

Quoted equity securities

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

Unquoted equity securities

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

Loans and Receivables

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

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

Receivables from customers

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

Unquoted debt securities classified as loans

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

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

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

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

Accounts receivable, sales contracts receivable and refundable security deposits

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

Financial Liabilities at Amortized Cost

Deposit liabilities

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

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

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

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

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

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

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

As of December 31, 2012 and 2011, government securities measured at fair value based on Level 1 inputs amounted to ₱16.74 billion and ₱16.11 billion, respectively.

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

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

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

5. Financial Risk Management Objectives and Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The main types of collateral obtained are as follows:

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

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

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

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

Credit quality per class of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BBB and below:

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

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

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

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

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

CC - Obligation is currently highly vulnerable to nonpayment.

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

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

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

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

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

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

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

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

(Forward)

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

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

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

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

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

Impaired loans and receivables and investment securities

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

Aging analysis of past due but not impaired loans per class of financial assets

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

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

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

Liquidity Risk and Funding Management
Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. In addition, the Bank makes use of a monthly system generated Liquidity Gap Report in analyzing its liquidity position where the difference between the Bank's maturing assets and liabilities is captured. A Maximum Cumulative Outflow limit is likewise established to control the liquidity gap for each currency. The Asset and Liability Committee meets weekly to discuss among others the liquidity state of the Bank.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the BSP equal to 18.00% of customer deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

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

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

(Forward)

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

*Including nonperforming loans and receivables

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

*Including nonperforming loans and receivables

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

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

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

Market Risk Management

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

VaR

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. Accordingly, during a period of rising interest rates, a bank with a positive gap would be better positioned than one with a negative gap to invest in or hold higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

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

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

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

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

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

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

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

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

Foreign Currency Risk Management

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

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

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

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

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

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

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

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

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

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

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

6. Segment Information

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

Consumer Banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts and fund transfer facilities;

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

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

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

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

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

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

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

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

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

(Forward)

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

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

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

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

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

Interest income on interbank loans receivable and SPURA follows:

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

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

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

8. Available-for-Sale Investments

This account consists of investments in:

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

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

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

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

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

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

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

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

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

9. Loans and Receivables

This account consists of:

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

Regulatory Reporting
Current banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those receivables classified as loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued for regulatory accounting purposes. As of December 31, 2012 and 2011, nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Investment in an Associate

This account consists of investment in PBCom Finance as follows:

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

Movements in accumulated equity in net earnings follow:

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

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

The comparative unaudited financial information of PBCom Finance follows:

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

11. Property and Equipment

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

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

(Forward)

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

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

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

Details of land at appraised value are as follows:

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

Depreciation and Amortization
Details of this account are as follows:

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

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

12. **Investment Properties**

The composition of and movements in this account follow:

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

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

Investment properties are stated at fair value, which has been determined based on valuations made by independent appraisers accredited by BSP and SEC. The fair values of foreclosed assets were derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuation were made.

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

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

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

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

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

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

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

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

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

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

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

13. **Other Assets**

This account consists of:

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

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

Software Cost
The movements of software cost follow:

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

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

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

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

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

14. Allowance for Credit and Impairment Losses

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

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

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

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

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

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

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

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

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

15. **Deposit Liabilities**

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

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

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

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

Interest expense on deposit liabilities consists of:

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

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

16. **Bills Payable**

This account consists of borrowings from:

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

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

Interest expense on bills payable and other borrowings consists of:

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

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

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

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

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

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

17. Accrued Interest, Taxes and Other Expenses

This account consists of:

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

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

18. Other Liabilities

This account consists of:

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

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

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

19. Maturity Analysis of Assets and Liabilities

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

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

20. **Equity**

Capital Stock
Capital stock consists of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Management

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

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

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

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "qualifying capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

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

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

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

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

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

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

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

21. Commitments and Contingent Liabilities

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

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

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

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

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

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

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

Derivative Financial Instruments

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

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

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

22. Trust Operations

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

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

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

23. Income on Trading and Investment Securities

Interest income on trading and investment securities follows:

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

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

Trading and securities gain - net includes:

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

24. Retirement Plan

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

The Bank's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability.

The principal actuarial assumptions used in determining retirement liability of the Bank under the plan are shown below:

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

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

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

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

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

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

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

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

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

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

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

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

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

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

The movements in the retirement liability follow:

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

Amounts for the current and previous years follow:

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

25. **Long-term Leases**

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

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

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

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

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

Future minimum rentals receivable under noncancellable operating leases follow:

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

26. Miscellaneous Expenses

This account consists of:

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

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

27. Income and Other Taxes

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid, which represents final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits, are presented as ‘Provision for income tax’ in the statement of income.

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

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

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and OBUs is taxed at 7.50%.

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

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

Provision for income tax consists of:

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

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

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

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income. Management considers projected future taxable income, reversal of temporary differences, and tax planning strategies in making the assessment based on the historical income and projections of future taxable income.

Management believes that portion of the deferred tax assets may not be realized in the future. Accordingly, the Bank did not set up deferred tax assets on the following NOLCO and temporary differences:

	2012	2011
Allowance for credit and impairment losses	**₱993,811,395**	₱977,630,472
NOLCO	**948,293,953**	1,352,878,935
Fair value loss on financial assets acquired at off-market rates	**459,255,628**	529,911,254
Fair value loss on investment properties	**71,065,071**	78,099,128
Retirement liability	**68,876,733**	66,336,861
Unamortized past service cost	**53,355,985**	61,358,097
Provision for year-end expenses	**51,104,510**	19,596,982
Advance rental income	**28,954,628**	35,523,218
	₱2,674,717,903	₱3,121,334,947

Details of the Bank's NOLCO are as follows:

Inception Year	Amount	Expired	Balance	Expiry Year
2009	₱592,038,205	₱592,038,205	₱–	2012
2010	480,841,564	–	480,841,564	2013
2011	279,999,166	–	279,999,166	2014
2012	187,453,223	–	187,453,223	2015
	₱1,540,332,158	₱592,038,205	₱948,293,953	

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

	2012	2011	2010
Statutory income tax	**₱377,472,602**	₱348,569,590	₱274,748,622
Tax effect of:			
Nondeductible expenses and others	**241,710,155**	423,774,303	307,809,070
Nontaxable income	**(206,308,648)**	(295,416,760)	(246,853,415)
Interest income subjected to final tax	**(103,971,489)**	(119,961,510)	(126,148,990)
FCDU income before income tax	**(94,908,055)**	(42,318,692)	(87,484,039)
Changes on unrecognized deferred tax assets	**76,164,478**	50,889,399	206,405,871
Effective income tax	**₱290,159,043**	₱365,536,330	₱328,477,119

28. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members, associate and post-employment benefit plan for the benefit of the Bank's employees.

The Bank has several business relationships related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Post-retirement Plan

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has a business relationship with its retirement plan pursuant to which it provides trust and management services to this plan. Any investments made in the retirement plan is approved by the Bank's Retirement Board. Income earned by the Bank from such services amounted to ₱1.46 million in 2012, ₱1.61 million in 2011 and ₱1.44 million in 2010. Total deposits maintained by the related party retirement plan with the Bank amounted to ₱38.36 million and ₱16.35 million in 2012 and 2011, respectively.

Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Senior Management Team to constitute key management personnel for purposes of PAS 24.

Total remunerations of key management personnel are as follows:

	2012	2011	2010
Short-term benefits	**₱64,008,186**	₱57,624,208	₱52,529,664
Post-employment benefits	**5,905,507**	36,282,139	49,284,228
	₱69,913,693	₱93,906,347	₱101,813,892

There were no loans and interest income earned in respect of related parties which are included in the Bank's financial statements in 2012 and 2011. In 2010, interest income from loans earned in respect of related parties amounted to ₱0.65 million. The outstanding balance of the related party loan amounted to ₱7.75 million with an interest rate of 8.00% as of December 31, 2010.

The year-end balances of deposits and interest expense incurred in respect of related parties which are included in the Bank's financial statements follow:

	2012		
Category	**Volume**	**Outstanding Balance**	**Terms and Conditions***
Retirement fund			
Deposit	**₱22,009,856**	**₱38,363,314**	**0.50% to 4.50%**
Interest expense	**404,046**		
Associate			
Deposit	**4,327,206**	**6,231,614**	**0.50% to 1.00%**
Interest expense	**18,155**		
Significant investors			
Deposit	**(22,083,172)**	**66,153,858**	**0.25% to 1.50%**
Interest expense	**271,766**		

*represents savings account interest rate ranges for each related party depositor

Category	2011 Volume	Outstanding Balance	Terms and Conditions*
Retirement fund			
Deposit	(₱99,495,034)	₱16,353,458	0.75% to 4.875%
Interest expense	1,261,069		
Associate			
Deposit	(1,895,621)	1,904,408	0.75% to 1.00%
Interest expense	72,570		
Significant investors			
Deposit	77,824,305	88,237,030	0.75% to 1.75%
Interest expense	259,664		

*represents savings account interest rate ranges for each related party depositor

Category	2010 Volume	Outstanding Balance	Terms and Conditions*
Retirement fund			
Deposit	₱80,316,269	₱115,848,493	0.75% to 4.625%
Interest expense	1,121,774		
Associate			
Deposit	2,117,597	3,800,029	0.75% to 1.00%
Interest expense	91,443		
Significant investors			
Deposit	(624,233)	1,029,725	0.75% to 1.75%
Interest expense	52,633		

*represents savings account interest rate ranges for each related party depositor

Regulatory Reporting

As required by BSP, the Bank discloses loan transactions with its associates, affiliates and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said circular:

	2012	2011
Total outstanding DOSRI loans	**₱19,642,110**	₱22,818,699
Total outstanding DOSRI loans granted under regulations existing prior to Circular No. 423	**19,642,110**	22,818,699
New DOSRI loans granted under Circular No. 423	**–**	–
Total outstanding non-DOSRI loans prior to Circular No. 423	**14,074,724,847**	10,925,439,048
Percent of DOSRI loans to total loans	**0.14%**	0.21%
Percent of unsecured DOSRI loans to total DOSRI loans	**53.47%**	44.45%
Percent of past due DOSRI loans to total DOSRI loans	**0.18%**	2.55%
Percent of nonperforming DOSRI loans to total DOSRI loans	**0.18%**	2.55%

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2012 and 2011, the Bank is in compliance with these requirements.

Any violation of the provisions under BSP Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of BSP Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

29. **Financial Performance**

Basic and diluted EPS amounts were computed as follows:

		2012	2011	2010
a.	Net income	**₱968,082,966**	₱796,362,304	₱587,351,620
	Less income attributable to preferred shareholders	**673,062,877**	553,673,520	408,358,152
b.	Net income attributable to common	**295,020,089**	242,688,784	178,993,468
c.	Weighted average number of common shares	**52,598,965**	52,598,965	52,598,965
d.	Earnings per share (b/c)	**₱5.61**	₱4.61	₱3.40

Income attributable to preferred shareholders represents such shareholders' pro-rata share in the net income of the Bank.

The following basic ratios measure the financial performance of the Bank:

	2012	2011	2010
Return on average equity (ROE)	**24.22%**	41.84%	(62.28%)
Return on average assets (ROA)	**2.22%**	1.99%	1.54%
Net interest margin on average earning assets	**4.37%**	3.92%	4.72%

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

The amounts of interbank loans receivable and SPURA considered as cash and cash equivalents as of December 31, 2012, 2011 and 2010 follow:

	2012	2011	2010
Interbank loans receivables and SPURA shown under statements of cashflows	**₱952,554,800**	₱2,786,242,240	₱1,105,442,177
Interbank loans receivables and SPURA not considered as cash and cash equivalents	**41,249,410**	43,840,000	43,840,000
	₱993,804,210	₱2,830,082,240	₱1,149,282,177

The following is a summary of noncash activities:

	2012	2011	2010
Noncash operating activities:			
Additions to loans and receivable from disposal of investment properties (Note 12)	**₱10,593,720**	₱75,221,142	₱30,530,760
Rescission of sales contract receivables	**–**	4,814,282	–
Noncash investing activities:			
Increase (decrease) in land due to revaluation	**19,468,950**	(27,502,000)	113,681,156
Reclassification from to HTM investments to AFS investments (Note 8)	**–**	–	7,787,676,931
Fair value gain on securities reclassified from HTM to AFS investments	**–**	–	1,788,332,814
Changes in net unrealized gain (loss) on AFS investments	**(1,050,374,127)**	42,657,066	1,942,806,402
Additions to investment properties in settlement of loans (Note 12)	**–**	4,814,282	24,271,940
Transfer from (to) property and equipment to (from) investment properties (Notes 11 and 12)	**(252,519,890)**	–	5,822,559

31. **Approval for Release of the Financial Statements**

The accompanying comparative financial statements were authorized for issue by the BOD of the Bank on February 27, 2013.

32. **Supplementary Information Under Revenue Regulations 19-2011**

In its 2012 filing for income tax return, the Bank disclosed the following information on taxable income and deductions using the revised format as required under RR 19-2011:

Sales/Receipts/Fees	₱1,230,222,457
Cost of Sales/Services	(789,864,155)
Non-Operating and Taxable Other Income	1,704,439
Itemized Deductions	(629,515,964)
	(₱187,453,223)

The details of the Sales/Receipts/Fees

Interest income	₱586,632,496
Rental income	332,806,346
Service charges, fees, and commissions	151,987,968
Profit (loss) from assets sold or exchanged	126,447,693
Income from trust operations	15,386,124
Trading and securities gain	2,188,299
Miscellaneous income	14,773,531
	₱1,230,222,457

The details of Cost of Sales follow:

Salaries and wages	₱450,788,279
Interest expense	292,150,360
Insurance	37,559,223
Banking fees	9,366,293
	₱789,864,155

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

Rental income	₱1,386,863
Trading and securities gain	317,576
Miscellaneous	–
	₱1,704,439

The following composed the itemized deductions:

Taxes and licenses	₱279,589,073
Depreciation and amortization	99,640,195
Management and professional fees	62,134,855
Rent, light and water	56,441,560
Communications	23,754,588
Entertainment, amusement and recreation	12,319,269
Stationary and supplies	9,217,663
Litigations and assets acquired	9,216,425
Advertising	2,450,734
Other	74,751,602
	₱629,515,964

33. **Supplementary Information Under Revenue Regulations 15-2010**

In compliance with the requirements set forth by RR 15-2010 hereunder are the details of percentage and other taxes paid or accrued by the Bank in 2012.

Gross receipts tax	₱206,396,413
Documentary stamp tax	86,809,600
Local taxes	28,618,185
Fringe benefit tax	1,538,590
Others	269,752
	₱323,632,540

Withholding Taxes
Details of total remittances in 2012 and outstanding balance of withholding taxes as of December 31, 2012 follow:

	Total Remittances	Balance as of December 31
Final withholding taxes on deposit substitute borrowings	₱153,491,308	₱12,206,567
Withholding taxes on compensation and benefits	108,257,637	10,014,505
Expanded withholding taxes	29,123,194	2,530,540
	₱290,872,139	₱24,751,612

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

PHILIPPINE BANK OF COMMUNICATIONS
(Company's Full Name)

PBCOM Tower, 6795 Ayala Ave. cor. V.A. Rufino St., Makati City
(Company's Address: No. Street City/Town/Province)

830-7000
(Company's Telephone Number)

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

3rd Tuesday of June
Annual Meeting

SEC Form 17-Q
(Quarterly Report Pursuant to Section 17 of the Securities Regulation Code and SRC Rule 17(2)(b) Thereunder)
(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)

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File Number

Central Receiving Unit

Document ID

LCU

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended March 31, 2013

2. Commission identification number PW-686 3. BIR Tax Identification No. 000-263-340

4. Exact name of issuer as specified in its charter

   Philippine Bank of Communications

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

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

7. Address of issuer's principal office Postal Code

   PBCOM Tower 6795 Ayala Ave., Cor. V.A. Rufino St., Makati City 1226

8. Issuer's telephone number, including area code

   (632) 830-7000

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

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
PBCom Common Shares	299,564,556 shares

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

    Yes [X] No [ ]

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

    Philippine Stock Exchange — Common Stock

12. Indicate by check mark whether the registrant:

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

Yes [/] No [ ]

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

Yes [/] No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

Please see attached

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Please see attached

PART II--OTHER INFORMATION

The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

SIGNATURES

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 thereunto duly authorized.

PHILIPPINE BANK OF COMMUNICATIONS

By:

Daniel L. Ang Tan Chai

DANIEL ANG TAN CHAI
EVP/ Chief Finance Officer

ARLENE M. DATU
SVP/ Controller

May 14, 2013

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF CONDITION
(In Thousands)

	Consolidated	Parent	
	MARCH 2013	MARCH 2013	DECEMBER 2012
	Unaudited	*Unaudited*	*Audited*
ASSETS			
Cash and Other Cash Items	465,149	465,149	551,098
Due from Bangko Sentral ng Pilipinas	6,653,052	6,653,052	5,511,067
Due from Other Banks	755,624	755,624	887,143
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	550,312	550,312	993,804
Financial Assets at FVTPL	62,289	57,691	-
Available-For-Sale Investments	19,350,477	19,350,477	16,778,803
Loans and Receivables	14,759,000	14,740,729	15,957,495
Investment in an Associate	-	12,239	12,168
Property and Equipment	1,370,214	1,370,172	1,337,829
Investment Properties			
Condominium units for lease	3,220,308	3,220,308	3,220,308
Foreclosed properties	367,708	366,499	375,813
Other Assets	346,300	343,895	205,639
	47,900,433	**47,886,148**	**45,831,167**
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities			
Demand	5,589,343	5,592,890	5,788,177
Savings	2,907,570	2,907,570	2,751,041
Time	23,090,515	23,090,515	22,817,097
	31,587,429	31,590,976	31,356,315
Bills Payable	8,350,196	8,350,196	7,823,513
Outstanding Acceptances	34,849	34,849	32,322
Manager's checks	85,646	85,646	67,050
Accrued Interest, Taxes and Other Expenses	399,100	398,489	275,180
Deferred Tax Liabilities - Net	432,716	432,716	432,716
Other Liabilities	1,123,945	1,123,037	1,282,171
	42,013,882	**42,015,909**	**41,269,268**
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Preferred Stock	-	-	3,000,000
Common stock	7,489,114	7,489,114	5,259,897
Deposit for future stock subscription	-	-	3,552,598
Additional paid-in capital	4,799,392	4,799,392	476,012
Surplus reserves	105,772	105,772	105,772
Deficit	(7,972,243)	(7,972,370)	(8,687,172)
Net unrealized gain on available-for-sale investments	1,254,887	1,254,887	672,789
Revaluation increment on land	186,889	186,889	186,889
Cumulative translation adjustment	6,555	6,555	(4,886)
	5,870,366	5,870,239	4,561,899
Non-controlling interest	16,185	-	-
	5,886,551	**5,870,239**	**4,561,899**
	47,900,433	**47,886,148**	**45,831,167**

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF INCOME AND EXPENSES
(In Thousands)

	Consolidated	Parent	
	UNAUDITED FOR THE QUARTER ENDED		
	MARCH 31, 2013	MARCH 31, 2013	MARCH 31, 2012
INTEREST INCOME			
Trading and investment securities	320,983	320,976	347,943
Loans and receivables	261,663	260,701	199,857
Interbank loans receivable and securities purchased under resale agreements	5,877	5,877	12,923
Deposits with other banks and others	3,801	3,801	17,677
	592,324	**591,355**	**578,400**
INTEREST AND FINANCE CHARGES			
Deposit liabilities	182,592	182,544	208,372
Bills payable, borrowings and others	37,180	37,180	34,292
	219,772	**219,724**	**242,664**
NET INTEREST INCOME	**372,552**	**371,631**	**335,736**
Trading and securities gain - net	947,840	947,840	489,031
Rent Income	54,304	54,319	69,124
Service charges, fees and commissions	40,588	40,562	30,398
Foreign exchange gain (loss) - net	(8,174)	(8,174)	8,572
Profit/(Loss) from Assets Sold/Exchanged	774	774	625
Income from Trust Operations	3,677	3,677	4,421
Miscellaneous	650	650	442
TOTAL OPERATING INCOME	**1,412,210**	**1,411,278**	**938,350**
Compensation and fringe benefits	257,037	256,681	153,296
Taxes and licenses	147,599	147,578	102,883
Depreciation and amortization	26,543	26,539	14,920
Occupancy and other equipment - related costs	43,791	43,755	19,456
Provision for impairment losses	-	-	-
Miscellaneous	148,901	148,837	80,373
TOTAL OPERATING EXPENSES	**623,870**	**623,390**	**370,928**
NET INCOME BEFORE TAX	**788,340**	**787,889**	**567,422**
PROVISION FOR INCOME TAX	73,220	73,087	74,390
NET INCOME (a)	**715,120**	**714,801**	**493,032**
Attributable to:			
Equity holders of the Parent Company	714,929		
Non-controlling interest	191		
	715,120		
Basic/ Diluted Earnings Per Share			
Attributed to Equity holders of the Parent Company (a/b)		3.33	2.86
No. of Weighted Average Shares (b)		214,920,829	172,598,965

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Consolidated	Parent	
	UNAUDITED FOR THE QUARTER ENDED		
	MARCH 31, 2013	MARCH 31, 2013	MARCH 31, 2012
NET INCOME	715,120	714,801	493,032
OTHER COMPREHENSIVE INCOME:			
Changes in net unrealized gain (loss) on available-for-sale investments	582,098	582,098	(518,504)
Net movement in cumulative translation adjustment	11,441	11,441	(4,899)
Net movement of Gain/(Loss) on FV adjustment of Hedging Instrument	-	-	449
OTHER COMPREHENSIVE INCOME (LOSS)	**593,539**	**593,539**	**(522,954)**
TOTAL COMPREHENSIVE INCOME (LOSS)	**1,308,658**	**1,308,340**	**(29,922)**
Attributable to:			
Equity holders of the Parent Company	1,308,467		
Non-controlling interest	191		
	1,308,658		

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENT OF CASH FLOWS
(In Thousands)

	Parent	
	UNAUDITED FOR THE QUARTER ENDED	
	MAR 31, 2013	MAR 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	787,889	567,422
Adjustments to reconcile income before income tax to net cash generated from (used in) operations:		
Accretion of interest on bills payable	6,954	(6,946)
Depreciation and amortization	26,539	14,920
Profit from asset sold or exchange	774	625
Securities gains from sale of available-for sale investments	3,126	47,646
Equity in net loss (earnings) of an associates	(71)	(96)
Changes in operating assets and liabilities		
Decrease (increase) in the amounts of:		
Loans and Receivable	1,216,766	166,164
Other Assets	(141,311)	(21,103)
Increase (decrease) in the amounts of:		
Deposit liabilities	234,661	163,597
Manager's checks	18,596	45,480
Accrued interest, taxes and other expenses	123,308	(29,870)
Other liabilities	(159,134)	(166,708)
Net cash generated from operations	2,118,097	781,130
Income taxes paid	(73,087)	(74,390)
Net cash provided by operating activities	2,045,009	706,740
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in:		
Financial Assets at FVTL	(57,691)	-
Available-for-sale securities	(1,992,703)	(2,915,803)
Property and equipment	(56,601)	(22,843)
Investment properties	9,314	(4,297)
Net cash used in investing activities	(2,097,681)	(2,942,942)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from deposit for future stock subscription	0	407,844
Net increase (decrease) in:		
Bills payable	519,729	179,527
Outstanding acceptance	2,527	(16,210)
Net cash provided by financing activities	522,256	571,161
EFFECTS OF FXCY TRANSLATION ADJUSTMENTS	**11,441**	**(4,899)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**481,025**	**(1,669,940)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		
Cash and Other Cash Items	551,098	369,164
Due from Bangko Sentral ng Pilipinas	5,511,067	6,040,783
Due from Other Banks	887,143	514,812
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	993,804	2,830,082
	7,943,112	**9,754,841**
CASH AND CASH EQUIVALENTS AT ENDING OF THE PERIOD		
Cash and Other Cash Items	465,149	365,982
Due from Bangko Sentral ng Pilipinas	6,653,052	3,993,386
Due from Other Banks	755,624	797,992
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	550,312	2,927,541
	8,424,137	**8,084,901**

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF CHANGES IN CAPITAL FUNDS
(In Thousands)

Parent

	Preferred Stock	Common Stock	Deposit for Future Subscription	Additional Paid-in Capital	Surplus reserves	Deficit	Net unrealized gain on available-for-sale investments	Revaluation increment on land	Gain/(Loss) on FV adj of Hedging Instrument	Cumulative translation adjustment	Total Equity
Balance at January 1, 2013	3,000,000	5,259,897	3,552,598	476,012	105,772	(8,687,172)	672,789	186,889	-	(4,886)	**4,561,899**
Reclassify 120M preferred shares to 120M common shares	(3,000,000)	3,000,000									-
Reduction of common share par value from 100 to 25		(3,944,922)	-	3,944,922							-
Issuance of 126.6M common shares		3,174,140	(3,552,598)	378,458							-
Total comprehensive income for the period						714,801	582,098		0	11,441	**1,308,340**
Balance at March 31, 2013	**-**	**7,489,114**	**0**	**4,799,392**	**105,772**	**(7,972,370)**	**1,254,887**	**186,889**	**0**	**6,555**	**5,870,239**
Balance at January 1, 2012	3,000,000	5,259,897	2,373,033	476,012	105,772	(9,655,255)	1,723,163	173,261	-	(22,653)	**3,433,229**
Proceeds from deposit for future stock subscription			407,844								**407,844**
Total comprehensive income (loss) for the period						493,032	(518,504)		449	(4,899)	**(29,922)**
Balance at March 31, 2012	**3,000,000**	**5,259,897**	**2,780,876**	**476,012**	**105,772**	**(9,162,223)**	**1,204,659**	**173,261**	**449**	**(27,552)**	**3,811,151**

PHILIPPINE BANK OF COMMUNICATIONS
AGING OF LOANS & SELECTED RECEIVABLES
As of March 31, 2013

TYPE OF LOAN/PARTICULARS	OUTSTANDING BALANCE	CURRENT	PAST DUE FOR			
			90 DAYS OR LESS	91 TO 180 DAYS	181 DAYS-1 YR.	MORE THAN 1 YR.
Interbank Loans Receivable	550,312,193	550,312,193				
Loans and Discounts	7,672,186,436	7,356,119,050	10,233,675	4,268,203	1,772,199	299,793,309
Agrarian Reform/Other Agricultural Credit Loans	810,848,746	762,093,049	255,000	-	-	48,500,697
Bills Purchased	1,033,016,776	1,025,401,615	-	6,571,135	-	1,044,026
Customers' Liability on Drafts under LC/TR	1,635,991,692	1,161,554,345	-	-	-	474,437,347
Customers' Liab. for this Bank's Acceptances	34,849,463	34,849,463	-	-	-	-
Restructured Loans	209,685,641	181,457,880	9,356,215	-	11,250,000	7,621,546
Items in Litigation	438,803,828	-	-	-	-	438,803,828
SUB TOTAL	12,385,694,775	11,071,787,594	19,844,891	10,839,338	13,022,199	1,270,200,753
Accounts Receivable	822,721,491	454,530,837	9,129,418	1,681,319	95,326	357,284,591
Accrued Interest Receivable	636,894,063	146,209,021	95,584	15,897	93,470	490,480,090
GRAND TOTAL	**13,845,310,328**	**11,672,527,452**	**29,069,893**	**12,536,555**	**13,210,994**	**2,117,965,434**

PHILIPPINE BANK OF COMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2013

1. The Bank's Interim Financial Statements have been prepared on a historical cost basis except for derivatives instruments, available-for-sale (AFS) investments, financial assets at fair value through profit or loss and investment properties that are measured at fair value and land, classified as 'Property and equipment', that is measured at appraised value.

   The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

2. The same accounting policies and methods of computation are followed in the Interim Financial Statements as compared with the most recent Annual Financial Statements.

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

   On October 13, 2011, the Monetary Board approved the ISM Group's acquisition of the controlling interest in the Bank.

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

   On December 27, 2011, the Chung and Nubla Groups had reinvested ₱2.4 Billion as deposits for future subscription to PBCom shares of stock. Another ₱0.4 Billion was deposited in March 2012 and additional P22 Million in April 2012 to complete their commitment of approximately P2.8 billion.

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

   On February 8, 2013, BSP issued Certificate of Authority to register its Amended Articles of Incorporation and Amended By-Laws with SEC. On March 8, 2012, the Bank obtained approval from SEC for quasi-reorganization and increased in authorized capital stock. Thus the Articles of Incorporation are now amended with the following:

   a. Reclassification of Bank's existing 120,000,000 preferred shares to common shares;
   b. Reduction of the par value of all its common shares from ₱100.00 per share to ₱25.00 per share; and
   c. Increase in authorized capital stock to ₱19,000,000,000.00 divided into 760,000 common shares with a par value of ₱25.00 per share.

   As agreed upon with the PSE, the Bank respectfully requested for a voluntary trading suspension of its common (PBC) and preferred (PBCP) shares.

Given the foregoing request of the Bank, PSE implemented a trading suspension on PBC and PBCP shares effective March 12, 2013. The trading of the Bank's common shares under the stock symbol PBC was lifted on March 19, 2013 upon the effectivity of the above-mentioned changes. Further, the reclassification of the said PBCP shares to PBC shares took effect on March 19, 2013. Hence the stock symbol of PBCP was removed from the Official Registry of the Exchange on the same day.

As a result of assessment based on PFRS 10 which became effective January 1, 2013, the Bank consolidates PBCom Finance Corporation in its financial statements that were previously accounted as Investment in Associates.

4. Financial Risk Management
The Bank is exposed to financial risks such as (a) credit risk, (b) liquidity risk and (c) market risk. These risks are managed through process of identification, measurement and monitoring subject to limits and other controls. The risk information on the interim financial statement should be read in conjunction with the most recent Annual Financial Statements since the same contain detailed risk disclosure. As of March 31, 2013, there are no changes in the Bank's risk management policies.

5. PFRS 9, Financial Instruments
The Bank opted not to early adopt PFRS 9 on its 2012 audited financial statements. Last year, an evaluation was conducted to determine the impact of early adoption of this standard and the accounts affected are Available-for sale investments, Investment in non-marketable equity securities, Unquoted debt securities classified as loans and receivable from customers.

6. Fair Value Measurement
The Bank uses three level hierarchies as a valuation technique in determining and disclosing the fair value of financial instruments.
   - Level 1 – quoted prices in active market for identical assets or liabilities.
   - Level 2 – those involving inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices)
   - Level 3 – those inputs for the asset or liability that are not based on observable market data

   As of March 31, 2013, the Bank used level 1 measurements of financial assets in AFS amounting to ₱19.37B and level 2 measurements used in AFS and Other assets amounting to ₱ 23.1M and ₱1.7M, respectively. There are no transfers between levels.

7. The interim financial statement is consistent with the most recent Annual Financial Statement on its fair value measurement. As of March 31, 2013 and 2012, carrying values of AFS and FVTPL securities are ₱19.4B and ₱18.5B, respectively, while unrealized gains amounted to P1.25B and P1.2B, respectively.

8. The Bank evaluates and classifies financial instruments whether it is quoted or not in an active market. Quoted prices in an active market are readily and regularly available and represent actual and regularly occurring market transactions on arm's length basis.

9. The Bank has no investment in foreign securities as of the reporting period.

10. There are no other items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.

11. There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that had a material effect in the current interim period.

12. There were no dividends paid as of March 31, 2013.

13. Except for PFRS 10, *Consolidated Financial statements,* and PFRS 1, *Government loans,* the Bank is currently evaluating the impact of the new Philippine Reporting Standards that became effective starting January 1, 2013 based on audited figures as of December 31, 2012.

Title	Subject	Applicable or Not
PAS 27 (Amended)	Separate Financial Statements	Not applicable
PAS 28 (Amended)	Investments in Associates and Joint Ventures	Not applicable
Amendments to PFRS 7	Disclosure - Offsetting financial assets and financial liabilities	Applicable
PFRS 11	Joint Arrangements	Not applicable
PFRS 12	Disclosure of interest in Other Entities	Not applicable
PFRS 13	Fair Value Measurement	Applicable

14. Financial Information by Segment (In Thousand)

AS OF MARCH 31, 2013

Particulars	Retail Banking Segment	Institutional Banking Segment	Treasury Segment	Leasing & Shared cost	Total
Segment results					
Net Interest Income	97,110	43,850	31,539	199,132	371,631
Trading and securities gain-net	-	-	947,840	0	947,840
Rent income				54,319	54,319
Service charges, fees and commissions	10,246	28,807	2	1,507	40,562
Foreign Exchange gain (loss) - net	503	345	666	(9,689)	(8,174)
Profit /loss) from Asset Sold/Exchange	21	-	-	754	774
Income from Trust Operations	1,152	207	-	2,318	3,677
Miscellaneous	1,832	106	-	(1,288)	650
Total Operating Income	110,864	73,316	980,047	247,052	1,411,278
Compensation and Fringe benefits	61,310	16,465	3,782	175,124	256,681
Taxes and licenses	24,814	9,905	85,355	27,504	147,578
Occupancy and Other equipment-related costs	24,013	176	21	19,545	43,755
Depreciation and amortization	10,931	992	390	14,226	26,539
Other operating expense	40,212	5,356	12,564	90,705	148,837
Total Operating Expense	161,279	32,894	102,111	327,105	623,390
Segment profit (loss)	(50,415)	40,422	877,936	(80,053)	787,889
Provision for income Tax	13	616	22,722	49,736	73,087
Net Income (loss)	**(50,428)**	**39,805**	**855,214**	**(129,790)**	**714,801**
Total segment assets	**5,299,308**	**10,691,538**	**19,544,810**	**12,350,493**	**47,886,148**
Total segment liabilities	**30,263,522**	**34,849**	**2,987,946**	**8,729,592**	**42,015,909**

AS OF MARCH 31, 2012

Particulars	Retail Banking Segment	Institutional Banking Segment	Treasury Segment	Leasing & Shared cost	Total
Segment results					
Net Interest Income	89,818	31,054	10,263	204,602	335,736
Trading and securities gain-net	-	-	295,166	193,866	489,031
Rent income				69,124	69,124
Service charges, fees and commissions	9,829	19,206	6	1,358	30,398
Foreign Exchange gain (loss) - net	571	1,181	(1,837)	8,658	8,572
Profit /loss) from Asset Sold/Exchange	94	657	-	(126)	625
Income from Trust Operations	943	13	-	3,466	4,421
Miscellaneous	1,758	(294)	-	(1,022)	442
Total Operating Income	103,013	51,817	303,598	479,926	938,350
Compensation and Fringe benefits	59,838	10,532	5,237	77,689	153,296
Taxes and licenses	23,248	7,292	59,480	12,863	102,884
Occupancy and Other equipment-related costs	26,438	686	362	(8,031)	19,456
Depreciation and amortization	8,668	770	252	5,230	14,920
Bad Debts		-	-	-	-
Other operating expense	34,592	1,887	11,155	32,739	80,373
Total Operating Expense	152,784	21,167	76,486	120,490	370,928
Segment profit (loss)	(49,771)	30,650	227,112	359,436	567,422
Provision for income Tax	119	585	21,032	52,653	74,390
Net Income (loss)	**(49,890)**	**30,065**	**206,080**	**306,783**	**493,032**
Total segment assets	**5,030,355**	**6,783,249**	**14,286,726**	**15,867,495**	**41,967,825**
Total segment liabilities	**27,034,858**	**71,907**	**2,485,672**	**8,564,237**	**38,156,674**

The Shared cost increased significantly this year compared to same period last year as the Bank hired key personnel to support the rapid group of the its business segments. Operating expenses of the group grew by 171% mainly on compensation and other operating expenses.

15. There are no changes in the composition of the bank in terms of business combinations, acquisition or disposal of subsidiaries, restructurings and discontinuing operations. As to long-term investments, the bank continues to maintain holdings on marketable long- term bonds.

16. The following is a comparative summary of the Bank's commitments and contingent liabilities at their equivalent peso amounts (In thousand):

	March 2013	December 2012
Trust department accounts	4,523,678	4,781,725
Standby LC	457,233	479,011
Spot exchange:		
Sold	1,142,400	451,575
Bought	204,000	451,690
Sight import LC outstanding	341,835	216,903
Usance import LC outstanding	85,354	99,556
Deficiency claims receivable	27,498	27,498
Inward bills for collection	2,995	4,641
Outstanding shipping guarantees	119,286	16,219
Late deposits/ payment received	4,426	20,111
Outward bills for collection	14,102	13,484
Items held for safekeeping	8	9
Items held as collateral	2	3
Other contingent	22,790	7,000

Any changes in the above figures are part of the regular operations of the Bank.

17. There are no contingencies and any other events or transactions that are material to an understanding of the current interim period.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Total assets stood at ₱47.89 Billion as of 31 March 2013 while total liabilities and equity amounted to ₱42.02 Billion and ₱5.87 Billion, respectively. Cash and Due from Banks increased by ₱924.5 Million from year-end level of ₱6.95 Billion. Likewise trading and investment securities went up by 15.67% or ₱2.63 Billion. On the other hand, Interbank and Loans and Receivable decreased by 9.79% or ₱1.66 Billion due to the aggressive collection effort of the Bank and partly to the decline in reverse repurchase agreements (RRPs) with the BSP that were directly matched with certain borrowings. With the adoption of BSP Circular 772 in 2013, the Bank's NPL ratio is -0.06% as of the quarter. Other assets increased by 67.23% or ₱138.26 Million mainly on higher prepaid expense that included payments of software maintenance and business licenses for the year and various investment projects capitalized as miscellaneous assets. On the liability side, through the Bank's prudent marketing strategy, its Deposit Liabilities compared to year-end level increased by ₱234.66 Million from the year-end level of ₱31.36 Billion. Likewise, Bills Payable increased by ₱527 Million due to higher deposit substitutes placements and amortization of discount on bills payable for the quarter. Accrued interest, taxes and other expenses increased by ₱123.3 Million or 44.8% due to accrual of expenses such as employee benefits and bonuses. Miscellaneous liabilities decrease by ₱159.13 Million mainly because of the reversal of unearned income brought about by accretion on borrowing from PDIC. Meanwhile, the Bank's capital base went up by ₱1.31 Billion from last year's level of ₱4.56 Billion due to the increase in unrealized gains from the mark-to-market valuation on its Available-for-Sale Financial Assets by ₱582.10 Million and net income for the period. The Bank's Risk-Based Capital Adequacy Ratio of 22.73% is well above the 10% minimum requirement. The ratio covers credit, market and operational risk for the first quarter of 2013.

The Bank's earning capacity has improved year on year because of the new business focus and overall increase in business generating consciousness. Interest income rose by ₱12.96 Million mainly due to income on loans and receivable brought by more aggressive marketing strategies of the Bank. Trading gains are up by 93.82% to ₱958.8 Million due to the continued decline in interest rates while service charges, fees and commission likewise improved by 33.44% or ₱10.16 Million from same period last year. The Bank has embarked on creating a new image through renovating its branches to become more efficient and customer friendly. Along with this was the hiring of key personnel and staff to properly man the branches, coupled with new talents in the management team. All these contributed to the increase in Bank's operating expenses by ₱252.46 Million. The Bank posted a net income of ₱714.80 Million which is 44.98% higher than the same period last year of ₱493.03 Million.

2. Discussion of various key indicators:

A. Financial Soundness

Ratio	March 2013	December 2012	Remarks
Liquidity Ratio (Liquid Assets to Total Deposits) *Liquid Assets include cash, due from banks, interbank loans, and trading and inv. Securities Total deposit refers to the total of peso and foreign currency deposits.*	87.99%	78.73%	The increase in liquidity ratio was brought about by the increase in Bank's demand deposit level with BSP and in trading and investment securities
Debt Ratio (Total Liability to Total Assets) *Debt refers to the total liabilities while assets refers to total Assets*	87.74%	90.05%	Although total assets increased by P2.05 Billion, this was offset by the increase in total liabilities of P746 Million resulting to a lower debt ratio of the Bank.
Asset to Equity Ratio (Total Asset to Total Equity	815.74%	1,004.65%	The Bank has lower leverage this period compared to last year. Although there is an improvement in Bank's total assets, total equity likewise improved because of the increase in unrealized gain from mark-to-market valuation on the available-for-sale investment along with increase in Bank's profitability.
Interest Rate Coverage Ratio (Earnings before interest & taxes to Interest Expense)	458.58%	333.83%	Interest rate coverage improved for the period due to higher earnings from securities and loans and lower interest expense.
Net Interest Margin Net interest income over Average Earning assets	4.33%	3.87%	Higher net interest income of P143 Million despite decline of P382 Million in average earning assets of the Bank for the period.

B. Financial Performance

Ratio	March 2013	December 2012	Remarks
Profit Margin	43.83%	41.75%	Ratio improved by 2.08% due to more profitable operations during the year.
Return on Average Asset	6.10%	4.52%	Growth in net income outpaced by the increase in Average Assets
Return on Average Equity	54.82%	49.33%	Favorable increase is due to higher average equity coupled with favorable increase in Bank's profitability.
Capital Adequacy Ratio	22.73%	20.45%	The improvement in CAR ratio (as submitted to BSP) was due to increase in qualifying capital by P718M. The ratio covering credit, market and operational risk remains well above the 10% minimum required by the BSP.
Basic Earnings per share	3.33	2.86*	Improved earnings per share as a result of better performance this period.

* For the 1st quarter ending March 2012

3. Discussion and Analysis of Material Event/s and Uncertainties

a. The Bank does not foresee any event that will trigger direct or contingent financial obligation that is material to the company.

b. The Bank does not have any 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.

c. As of March 31, 2013, unspent amount of capital expenditures amounting to ₱192.5M from the last years approved budget and additional projects this quarter. The projects included are for technology upgrade, computer and communication upgrade and renovation of certain business centers and branches.

d. There are no known trends, events or uncertainties that are expected to have a material impact on net sales or revenues of the Bank in the near future.

e. There were no recorded significant income or losses during the quarter that did not arise from the Bank's regular operations.

f. 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 is no seasonal aspect that has 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.

Statement of Condition: March 2013 vs. December 2012

	Increase (Decrease)	Percentage	Remarks
Cash and Other Cash Items	(85,949)	-15.60%	Prudent cash management resulted to lower cash balance for the period.
Due from BSP	1,141,985	20.72%	Higher BSP balance to fund various payments of Bank obligations
Due from Other Banks	(131,519)	-14.82%	Decrease in balance brought about by transfer of funds to BSP demand deposit account for funding of Bank's various obligations.
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)	(443,492)	-44.63%	Transfer of funds from investment in SPURA to other high yielding securities and lending activities in the period.
Financial Assets at FVTL	57,691		Investment in held for trading securities for the period
Available-for-Sale Investments	2,571,675	15.33%	Purchase of additional proprietary securities during the period.
Loans and Receivables	(1,216,766)	-7.63%	Decrease in volume of loans and discounts consequent to the Bank's selective and cautious credit strategy.
Investment in an Associate	71	0.58%	Bank's share of PBCom Finance Corporation income for the period.
Property and Equipment	32,342	2.42%	Purchase of various furniture, IT infrastructures and desktop upgrade during the period.
Investment Properties	(9,314)	-0.26%	Sale of ROPA properties during the period.
Other Assets	138,256	67.23%	Higher prepaid expense and miscellaneous asset that includes payment of software maintenance, business licenses and benefits received by employee for the year and capitalized cost of various projects.
Demand Deposits	(195,287)	-3.37%	Increase in savings and time deposits due to more aggressive strategies of the Retail Banking Segment to generate more deposits across all branches.
Savings Deposits	156,529	5.69%	
Time Deposits	273,418	1.20%	
Bills Payable	526,683	6.73%	The effect of increased accretion on borrowing from PDIC by P182M and deposit substitutes (P337M) in the comparable period.
Outstanding Acceptances	2,527	7.82%	Increase in bills of exchange accepted by the Bank
Manager's Checks	18,596	27.73%	Increase in un-negotiated MC's as of report date
Accrued Interest, Taxes and Other Expenses Payable	123,308	44.81%	Increase is due to accrual of various expenses of the Bank such employees benefits and bonuses for the quarter.
Other Liabilities	(159,134)	-12.41%	Net effect of decrease in unearned income due to accretion on borrowing from PDIC and increase in other liabilities such as Due from PDIC and BSP.

Statement of Income and Expenses: January-March 2013 vs January-March 2012

	Increase (Decrease)	Percentage	Remarks
Interest Income on Trading and investment securities	(26,967)	-7.75%	Lower interest income from PDIC GS substituted collateral due to lower yields compared to 12.37% coupon rate of old collateral last year. Initial tranche of GS collateral substitution started last Feb 2012.
Interest Income on Loans and receivable	60,844	30.44%	Higher interest income from current loans by P46M on increased average volume and accretion of interest income from MRT bonds by P9.7M.
Interest Income on IBCL & SPURA	(7,046)	-54.52%	Lower year-on-year average volume of investment in SPURA by P527M.
Interest Income on Deposit with other Banks and others	(13,876)	-78.50%	Lower interest income by P6.8M as a result of BSP Circular 753 where deposits in compliance with the reserve requirements no longer earn interest effective April 6, 2012.
Interest Expense on Deposit Liabilities	(25,829)	-12.40%	Lower deposit rates from Time deposits by P22.4M despite increased year-on-year average volumes by P2.3B.
Interest Expense on Bills payable, borrowings and others	2,888	8.42%	Net effect of higher amortization of unamortized discount from PDIC loans and lower interest from deposit substitutes as the Bank concentrate on low cost funding.
Trading and Securities Gain – net	458,809	93.82%	Favorable interest rate movement in the bond market resulted more trading gains this year. .
Service Charges, Fees & Commissions	10,164	33.44%	Higher participation fees and bank commissions collected
Income from Trust Operations	(745)	-16.85%	Competitive environment in the Trust resulted to lower fees for this year
Rent Income	(14,806)	-21.42%	Lower occupancy ratio at the PBCom Tower property brought about by the utilization of some floors as PBCom offices.
Profit/(Loss) from Assets Sold/Exchanged	150	23.95%	Slightly better recognition of gains from sale of ROPA properties for the period.
Foreign Exchange Gain (Loss) –Net	(16,747)	-195.35%	Combination of higher revaluation loss and lower actual/realized gain from foreign exchange trading.
Miscellaneous Other Income	208	46.99%	More auxiliary income generated for the period
Compensation and Fringe Benefits	103,385	67.44%	Hiring of additional manpower and accrual of additional employees benefits for the quarter
Depreciation & Amortization	11,619	77.88%	Higher depreciation as a result of upgrades of various furniture and equipment of the Bank.
Occupancy and other equipment- related costs	24,299	124.89%	Lower reimbursements received from tenant of PBCom Tower on utilities and repairs this year as certain floors previously leased out are classified as bank premises
Taxes and Licenses	44,694	43.44%	Higher documentary stamp tax expense as a result of issuance of new shares as a result of quasi reorganization and increase in gross receipts tax on improved and trading gains for the quarter.
Miscellaneous	68,464	85.18%	Higher management & professional fees and filling fees paid to regulators for the increased in capitalization of the Bank
Provision for Income Tax	(1,302)	-1.75%	Lower final taxes due to decreased investment in securities and government bonds.