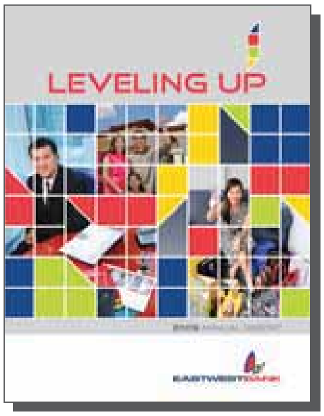
LEVELING UP

2009 ANNUAL REPORT

EASTWESTBANK

A PASSION FOR SERVICE. *Simpler. Faster. Better.*



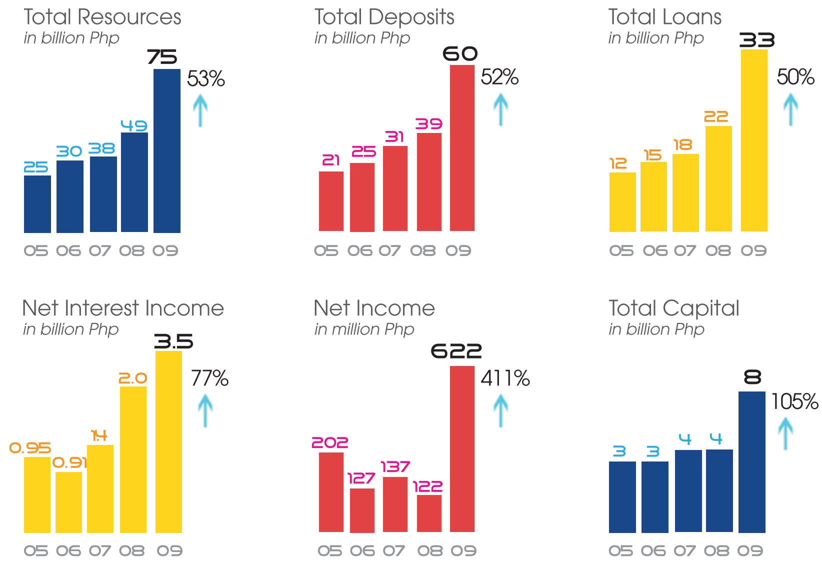
Our Cover

In the video game of Tetris™, blocks of various shapes randomly appear and fall down, and players have to skillfully and quickly adjust them so that they fit and strengthen the existing blocks. This way, the player gains points and advances to the next level. In banking, just like in Tetris, one can only "level up" or progress to the next level if all the right building blocks – agility, skill, prudent management and experience – are in place. The annual report cover uses blocks of different shapes and hues to denote EastWest Bank's drive to differentiate its products and services while building up to become a universal bank.

About EastWest Bank

East West Banking Corporation (EastWest Bank) was granted a commercial banking license on July 6, 1994 and became the first commercial bank to be licensed when the Bangko Sentral ng Pilipinas liberalized banking in the early nineties. The Bank formally opened its doors to the public on August 1, 1994. EastWest Bank now has a network of 89 branches and 82 ATMs. The Bank is part of the Filinvest Development Corporation, a publicly listed holding company founded by Andrew Gotianun, Sr. in 1955. The Filinvest Group is composed of companies engaged in diverse businesses – from real estate through its majority-owned subsidiaries, Filinvest Alabang, Inc. and Filinvest Land, Inc., to sugar through wholly owned subsidiary, Pacific Sugar Holdings Corporation. As of end-2009, EastWest Bank ranks as one of the country's fastest-growing banks.

2009 HIGHLIGHTS



EastWest Bank ended 2009 with total assets of Php75.0 billion, 53% higher than Php49.1 billion registered in 2008. This nudged up EastWest Bank's industry ranking to 17th out of 38 commercial and universal banks in the country.

Total loans grew 50% to Php32.9 billion from Php21.9 billion in 2008. Total deposits, on the other hand, rose 52% to Php59.8 billion from Php39.3 billion in 2008. Total capital jumped 105% to Php8.1 billion from Php4.0 billion in 2008. The growth primarily came from the Php3.0-billion capital infusion in the form of preferred shares.

Net income in 2009 grew more than five-fold to Php621.7 million from Php121.7 million in 2008. Net revenues rose 85% to Php5.5 billion in 2009 from Php3.0 billion in 2008. Net interest income posted a 77% growth to Php3.5 billion year-on-year.

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MESSAGE FROM THE CHAIRMAN

Dear shareholders,

EastWest Bank delivered a solid performance in 2009 despite the political jitters in the home front and persistent global market uncertainties.

We were able to prove that we are well prepared to deal with any difficult market condition because our fundamentals remained strong and our belief in our capability to face challenges was unshaken.

The Philippine economy showed resilience and ended the year with 0.9% growth in GDP from 3.8% in 2008. It was among a few economies in Asia that posted positive growth despite the havoc from typhoons Ondoy and Pepeng. These natural disasters severely damaged agriculture, which accounts for a third of our economy.

On the other hand, remittances from overseas Filipino workers (OFWs) grew by 6% to US$17.3 billion notwithstanding concerns that the global crisis would result in less inflows. This contributed to the double-digit growth in retail trade, the financial sector and recreational services.

Despite lower investments and the decline in export demand from the country's major trading partners as an offshoot of the global economic crisis, the domestic economy still grew in 2009 because of higher consumer spending and government pump-priming, mainly for the relief and rehabilitation of typhoon-stricken areas.

The scenarios in the local financial markets were more upbeat in 2009. The global financial markets closed the tap on funds and this created significant opportunities for Philippine financial institutions. Given the excess liquidity and the relatively low and stable interest rate environment, companies opted to borrow domestically, which rejuvenated the local debt market. The Philippine Stock Exchange index (PSEi) was up by 63% from its 2008 closing level.

This rosy performance provided the stage for EastWest Bank to demonstrate its ability to act quickly and diligently to market challenges.

In 2009, we completed our acquisition of AIG PhilAm Bank and derived synergies towards our goal of becoming one bank.

Even as our strength and future growth potential remain in place, we will strive constantly to increase shareholder value by growing the business. Thus we are setting our sights on LEVELING UP to universal banking status this year and further strengthening our risk management and governance infrastructure.

We will continue to expand our geographical presence and expand our portfolio of products and services to meet ever-changing customer needs. We will intensify our focus on client satisfaction as we enhance shareholder value.

We are confident that we will be breaking into the P1-billion earnings milestone this 2010 by going back to "good old-fashioned banking," as our bank President put it. The key drivers will be deposit gathering, consumer lending and corporate banking.

2009 was a year fraught with challenges and hard work. Thanks to the unflagging enthusiasm and motivation of our management team and staff, and the loyalty of our clients and shareholders, it was a successful year for EastWest Bank.

We thank you all for your valued contribution to our success, and look forward to making 2010 an even better story.

JONATHAN T. GOTIANUN
Chairman

THE PRESIDENT SPEAKS

EastWest Bank President and CEO Tony Moncupa, Jr. shares his insights into the Bank's 2009 performance and the outlook for the industry and the economy.

How did the Bank fare in 2009?

Not too bad. Not at all. The organizational mood is upbeat and we have the momentum of growth and profitability. The 'big leap forward' program of the Board that started in 2007 continues to gain traction. The Bank is getting bigger and stronger. We grew by 52.8% in 2009 to Php75.0 billion. We have grown at a 35.3% yearly pace since 2006, which is one of the fastest growth rates in the industry. The Bank earned Php621.7 million last year, which is more than a five-fold increase from 2008.

We have a very healthy balance sheet. Our liquid assets make up almost 50% of our total resources. We have fully provisioned all identified doubtful assets. Our major business lines continue to post healthy growth. Credit cards receivables went up 131%, largely due to the acquisition of AIG PhilAm Savings Bank. Even without the merger, it would have grown by 21.1%. Corporate loans were up 29.7%. The mortgage and auto loan portfolio also registered 37.1% growth in 2009.

On the liability side, peso deposits jumped 43.1%, while FCDU deposits were up 80.5%. Total deposits grew by 51.9%. Low-cost deposits registered a big jump of 40.9%. The Bank continues to have one of the lowest average costs of peso deposits.

The growth in the balance sheet was clearly manifested in the revenue growth. Net revenues were at Php5.5 billion, growing by 85.3% in 2009. Net Interest Income (the difference between total interest income and total interest expense) grew by 77.2% to Php3.5 billion. In the last three years, it has grown at an annual compounded pace of 55.4%. Fees, Commissions, and Other Income, excluding financial markets trading profits, went up by 39.8% in 2009, an annual compounded growth of more than 50%.

All these did not just happen overnight. These were the results of the painstaking 'foundation-building' efforts that started in the last quarter of 2006. During this period, we beefed up our manpower pool, fixed our business processes, fine-tuned strategies, and strengthened governance.

And what we are really excited about is the palpable optimism in the organization. Eastwest Bankers are looking forward to sustaining the Bank's growth and profitability trend and doing a much better job in 2010 and the coming years.

Everything that has been mentioned indicates very good 2009 results. However, EastWest has one of the highest NPL ratios in the industry. How does this impact the Bank?

True, we have one of the highest NPL ratios, but that creates a very misleading impression. You don't want to have an NPL because it will eventually result in lower earnings. But our earnings are OK and are poised to take off. NPL ratio is a function of the asset portfolio of a bank. For instance, if you have a corporate loan portfolio earning 7.5% and you have a 1% NPL ratio, you will end up with a 6.5% net yield. If another bank has a portfolio of credit cards earning 30% and its NPL is 10%, it will have a net yield of 20%. Now which is better, 6.5% or 20%? Obviously, it's the 20%. In this example, it is better to have an NPL of 10%, right? This is the case with EastWest. We have a good portfolio of consumer loans – cards, auto, and mortgages. These are very profitable assets but they also yield high NPLs and that is OK.

What is important is we are able to fully set aside the necessary provisions for bad assets and that we end up with good returns. Incidentally, what is not mentioned when people talk about NPL ratio is that EastWest probably has the highest net interest margin in the industry. Bottom line is, we should not look at NPL in isolation. A better gauge is to look at return on assets and return on equity.

What were the key ingredients to your growth?

There is no special formula. It's the old-fashioned hard work performed by dedicated and competent people. The right people will find the correct strategies. Of course, you must have the basics: capital and infrastructure. Fortunately for EastWest, it has 'rich parents'. In the last three years, Filinvest Development Corporation (FDC) has pumped in a total of Php4.5 billion in additional Tier-1 capital to support the growth objectives of the Bank. The Bank also has a decent size network of 89 branches with a national footprint.

"The next phase is called leveling up as we make the system more efficient and focus on risk management and governance.

We hope to add a significant number of branches in the next few years.

We believe our present focus on the middle markets for corporate loans and deposits, and in consumer lending, particularly credit cards, mortgage, and auto, continues to be valid. We have started to tap the big corporate accounts to balance our risks but the Bank will remain predominantly in the middle market and retail space.

On the side, the Bank will also be in skill-based and democratized businesses. By democratized, we mean those business lines where size and age do not matter, like financial trading, and fixed income securities distribution.

What's the impact of your acquisition of AIG PhilAm Bank?

AIGPASB added Php8.0 billion of assets to EastWest, a significant number when you consider the Php26-billion growth in 2009. These assets are concentrated in credit cards and auto, pushing EastWest as the sixth largest in these businesses. And more than the Php8.0 billion, we added around 400 new EastWest Bankers, including senior executives now leading key units. At the Bank's present size of Php75.0 billion, we expect a dramatic improvement in productivity and income as the economies of scale start to kick in. We started to see that in the last quarter of 2009. We were very lucky to have acquired AIGPASB at the time it happened. The price was reasonable and the acquisition perfectly fits our strategy.

Judging by your financial results in 2009, the Bank really did not feel the pinch form the global economic crisis. Why?

We have always told ourselves that given the Bank's balance sheet profile, we will see the Western crisis pass with the Bank unscathed. We don't have much exposure to companies dependent on US and European markets. We also believed that, except for a few sectors, the Philippines would not suffer much from the crisis. We don't have leverage in the country as the loan-to-deposit ratio of the banking industry remains under 60%. We don't have those exotic derivatives, which are financial accidents waiting to happen. And we actually took advantage of the prevailing apprehension. If we got scared, we would not have acquired AIG PhilAm Savings.

If 2009 was foundation building, what will be your thrust this 2010?

In 2009, we have already put in place significant 'foundation'. There are still some concrete that we need to pour to solidify our base but while doing that, we expect 2010 to be a 'coming out' year for EastWest, especially in terms of income. We see a significant increase in profitability.

However, there is much to be done. We need to do cost consolidation. We have to complete our automation programs, further improve our business processes and strengthen our governance functions.

I'm talking about risk management, compliance, audit and finance. These are the second line of defense to prevent troubles and avoid unexpected losses. That's the next phase. That's why we're calling it leveling up.

In terms of expanding the revenue base, the Bank has done pretty well. Of course, there is always room for improvement, but by and large, we believe we are on the right track. And for 2010, we have set our priorities: sustain gains in revenue generation and attain better efficiencies. Our major thrust this year is to improve governance and risk management. All these should result in a more dramatic improvement in our bottom line. This year, we expect to book a minimum income of Php1.0 billion.

Does leveling up also entail becoming a universal bank?

Yes, a universal banking license is an integral part of the Bank's 'leveling up'. And that is a matter of course, now that we are qualified to apply for a universal banking license. We are filing an application soon with the Bangko Sentral. Note, however, that except for a couple of business lines, like leasing and underwriting, a universal banking license is really more to manage perception. It earns you some brownie points. Somehow, a segment of the banking public prefers dealing with universal banks. I really think it's more psychological and 'optics' than anything.

How about going public, any plan to list in the stock exchange?

Yes and that is also a matter of course and a matter of timing. The Bank is in a very steep growth curve and it has not normalized yet. Shareholder value is still improving significantly. It might not be good for the stockholders who invested when the Bank was set up and bore the ups and downs of the last 15 years not to get full measure for their money.

Also, there are a few more sub-plots we need to write to complete the story we will narrate to the investing public when we list. We expect to complete an interesting story soon. In two to three years, the Bank should be ready to go public for the second phase of its growth plans.

How do you see the economy and markets moving in 2010?

We are very bullish on the economy this year and in the next few years. The world economy is recovering, you have a healthy banking system and you have an under-leveraged economy. All these mean a good potential for banking.

While we expect the new government to be faced with a fiscal problem, this could be overcome with other positive developments mentioned earlier and a renewed sense of hope.

How does it translate to your business in terms of challenges you anticipate?

We are preparing for a positive scenario but we are ready to shift gears should anything untoward happen. All our business units are gearing up to take advantage of opportunities that naturally come from a growing economy. On the other hand, we looked at our asset portfolio and we believe it can withstand any possible temporary crisis.

Our efforts on improving risk management, governance and efficiencies will proceed no matter what happens. On the business side, we believe we can sustain our growth trajectory and we expect to improve on some of our businesses which are not growing as fast as we would want them to be, like our mortgage business. We intend to make mortgage the next big thing in EastWest.

So what we need to do is to ensure all businesses are growing as fast as the exemplary performers, and then consolidate the expense side through higher efficiencies and better loss prevention. This has always been our effort but it has to intensify as the Bank grows. The emphasis on risk management and cost efficiencies becomes more pronounced as we ride the growth momentum of the previous three years.

The Bank has come up with a Manifesto. Is this part of your confidence building program?

The idea behind the 'Manifesto of Behavioral Norms' is to give life to what otherwise would have been vague and unclear corporate values pronouncements. It is more than confidence building. It is intended to clarify who we are and who we want to be. It is a set of behavioral norms that should serve as the glue that binds the whole organization.

For example, one of the things in the Manifesto is 'Vigorous Exchange of Ideas'. The Manifesto defines that to mean that we welcome and appreciate questions and challenges to our ideas, reports and everything that we do about our work. We disdain insecure and arrogant responses to challenges and questions as manifested in defensiveness, anger and inappropriate behavior. We believe that 'vigorous exchange of ideas' filters different views such that the best idea comes out and encourages everyone to be more purposeful, thoughtful and prepared. This could only redound to the common good.

Another item in the Manifesto is: 'We are Hands-on". The Manifesto states: "We believe that the era of pure 'conductor-type' (*pakumpas-kumpas lang*) executives is over. We know our business and we can do it well. As a matter of general principle, we do not ask our people to do things we cannot do and are unwilling to do. We expect everybody to know the details. Of course, we also have other norms that require us not to confine ourselves such that we only see the trees and not know the forest.

One of the key messages in the Manifesto is that in this Bank, there are no sacred things, no sacred policies and no sacred concepts. Everything could be changed by something better. We want to create a culture where we welcome, appreciate and celebrate questions and challenges to our ideas. We want the best ideas. As Mao Ze Dong said, "Let a thousand flowers bloom and hundred schools of thought contend."

Anything else you want to say?

I would like to thank everybody who had stood by us and made possible the results that we now see. First, of course, are our customers. Thank you for the opportunity to serve you. We know we are not perfect and yet you have been patient. You will continue to be our inspiration to improve further and we commit to strive harder to meet your expectations. I also would like to give credit to our hardworking colleagues in the Bank who did all the hard work to bring the Bank to where it is now. You made all these possible. Likewise, we thank our Board of Directors for your guidance and support. I am very much honored and fortunate to be part of this wonderful institution. Again, thank you very much. *Mabuhay!*

The acquisition of AIG PhilAm Savings Bank boosted our net consumer loan portfolio by 33.1% and improved our ranking in the auto loans segment.

Consumer lending is considered the battle ground in banking today.

In 2009, EastWest Bank solidified efforts to establish a brand that will be differentiated increasingly in terms of customer service and customer experience.

The acquisition of AIG PhilAm Savings Bank boosted our net consumer loan portfolio by 33.1% to Php9.7 billion in 2009 from Php7.3 billion the previous year. It brought in additional auto loans of around Php3 billion, improving our ranking in the market segment by two notches up to 6th place in 2009.

The bank continues to reap double-digit growths in both mortgage and auto loans from 2006 to 2009 on an annual compounded basis. For mortgage, our annual compounded growth rate (ACGR) stood at 17% while we attained an ACGR of 16% in auto loans. We expect our mortgage loan product to perform even better as we complete the process of setting up the proper IT infrastructure and aggressively venture into this market segment.

EastWest Bank continues to invest in initiatives to manage risks and harness powerful technology solutions. This will enable us to expand and enhance our product suites and embark on more intensified marketing and promotion campaigns in the near future. These initiatives include the Home Loan Free Appraisal Promo which entitles qualified home loan applicants to an automatic waiver of the home loan appraisal fee – one of the first in the industry.

We will also diversify our sales strategies and introduce new delivery channels to reach more customers. With the proper infrastructure and organization, we continue to be bullish on opportunities in our home loan and auto loan businesses.

A dream weaver

Bernadette de Guzman started her fruit and vegetable supply business with her husband in 2003. Their "office" was a small room in their house in Obando, Bulacan and a staff of one.

Barely seven years after, the couple now employs 25 people. Their company supplies to over 100 stores and their clientele now includes the biggest names in the food industry. In the next quarter, they are set to break into the Pampanga market.

"I'd like to think my husband and I have done a good job and I feel that the most when I look at the new house we are now constructing," says Mrs. de Guzman, mother to an 11- and a 4-year old.

The De Guzmans' dream house is a 295-square meter property in Valenzuela City, which is now around 65% complete.

While their business is booming and they were financially secure, Mrs. de Guzman says they had to take out a loan to finance their Php6-million project last year. A family friend recommended EastWest Bank.

"A lot of banks approached us then and the payment terms didn't really vary drastically. What set EastWest apart was its flexibility. While other banks insisted on a ten-year payment structure as minimum, EastWest agreed to do things in six years," she explains.

As they have completed all the paperwork, loan processing took only one week. By July 2009, construction of the three-storey house had already started. EastWest was also thorough in its follow-through. Mrs. de Guzman says she frequently receives calls from the bank to check if things are going well.

"We cannot be happier," she gushes with excitement.

Credit card net receivables surged 131% in 2009 and propeled us to being the 6th biggest credit card issuer.

2009 was a milestone for the bank's credit card business.

We started reaping the expected synergies and benefits from successfully integrating AIG PhilAm Savings Bank's card operations.

The bank's credit card net receivables surged 131% to Php8.0 billion in 2009 from Php3.5 billion the previous year. Our total cards-in-force (CIF) nearly doubled to 585,000 in 2009 from 305,000 in 2008, propelling EastWest Bank as the country's 6th biggest credit card issuer. Billings and transactions climbed to Php11 billion from Php4.5 billion during the period.

While a large part of the growth was due to the merger with AIG PhilAm Bank, the bank's credit card business would still have grown by around 21.1% in 2009 without the merger.

Despite being one of the newest entrants in the market, EastWest Bank credit cards are at par with competition in terms of reliability, service features, worldwide acceptability and pricing, among other things. The challenge for the bank is to leverage on its strengths to differentiate its product and service offerings from the rest, particularly in the credit card business which can be easily replicated.

This is why EastWest Bank launched the EastWest Bank Practical MasterCard, the first to offer the lightest monthly payment and flexible membership fee payment option. As its flagship product, it also has the EastWest Bank Gold and Classic Visa and MasterCard, which carry free accident insurance, hospitalization benefits and Limitless Rewards. It also launched the EastWest Bank Dolce Vita MasterCard – the only credit card in the market that provides holistic benefits designed exclusively for women.

The bank recognizes the need for its credit card products to evolve constantly as there is usually no "one-size-fits-all" strategy. It will continue to identify gaps and customer needs in the market. It will also pursue other strategies, such as diversification of channels, alliances with merchants, intensifying marketing and portfolio management initiatives to grow its cards portfolio.

A pocket lifesaver

"I love meeting people. It's fun," businesswoman Ruby Yulo says.

A woman on top of her game, Ruby also feels empowered running her own business. She says this gives her the freedom beyond a 9-to-5 job and being holed up in a cubbyhole of an office.

It was the same freedom that drew her to her EastWest Bank Gold Visa credit card which, she says, took her worries away.

"It's my pocket lifesaver whenever I shop and I fall short of cash," says the mother of three.

Ruby explains that she cannot overemphasize the importance of a reliable credit card. Bringing cash, she says, is not only a hassle, it is also very risky.

Other than the obvious convenience of a clutter-free wallet, she also stresses the financial leverage she derives from using plastic money.

"I use it to buy groceries and pay for other expenses. I even earn points and freebies in the process!" Ruby adds.

With her EastWest Bank rewards vouchers, she also has appliances to show for dutifully accumulating her reward points. With her rewards vouchers, she has so far redeemed a number of appliances, including a refrigerator, a juicer and a television set.

Two of her three children, including her eldest daughter who is now based in Singapore, have supplementary cards. While she regards her EastWest Bank credit card as a reliable partner, she says it's not wise to have a lot of plastics.

"Two is enough," she cautions. "Just make sure they're both dependable like EastWest."

INSTITUTIONAL BANKING

In the Cash Management Services area, accounts managed in 2009 grew three-fold while volume jumped 160% from 2008 levels.

Cash management will continue to be a major segment in 2010.

A bullish economy and higher customer spending buoyed the growth of EastWest Bank's institutional banking business in 2009.

In the cash management segment, which accounted for a third of our CASA in 2009 (bigger than the 20% share in previous years), the bank generated Php5.2 billion in volume, or 160% higher than in 2008.

The number of accounts the bank managed grew nearly three-fold to 320 accounts from 136 accounts during the period.

The higher-than-expected growth came from our branches' intensified effort to push cash management options to clients. The bank also continued to maximize its unique competitive edge in terms of offering user-friendly and customizable cash management solutions to corporate clients.

While most of the payroll products in the market offer a one-size-fits-all approach to companies, EastWest Bank manages to differentiate itself from competition by tailor-fitting to clients' needs, particularly in the area of payroll processing.

Our innovative offerings are primarily designed to suit the growing complexity of business organizations and their requirements.

Our Corporate Suite allows clients to focus on the more pressing needs of their business as administrative functions can be outsourced at minimal cost.

To continue growing the institutional banking segment of our business, the bank will conduct deeper market research studies to uncover more opportunities. It will also create a strategic mix of big-volume and medium-size clients to balance its portfolio.

Partner for success

With a million-strong direct selling network, DXN International was looking for a bank it could rely on, much like how its clients turn to its celebrated roster of food supplements, coffee and personal care products for their health and wellness.

PayrollAssist and BillsCollect, among other key products and services in the corporate suite of EastWest Bank, have served as the answer to DXN's growing needs.

"In 2007, we realized that we could maximize the benefits of technology for our payroll system. EastWest provided the automated payroll preparation and crediting we were looking for," says DXN Finance Manager Arminda Macaraig.

DXN also availed of EastWest Bank's BillsCollect service to satisfy all its collection requirements and eliminate the need for an elaborate collecting agency setup.

"There is very stiff competition among banks with the many banking products and services out there. However, good customer service always stands out," Ms. Macaraig says.

"In EastWest, we found a bank with very personalized service and an attentive staff," says DXN Philippines executive Shirley Te. "Problems are resolved attentively with support from assigned officers, who extend assistance even beyond banking hours. Our satisfaction didn't end in the unique technology EastWest offers."

And when it comes to satisfying customers, DXN Philippines knows what it takes. "In sales and networking, it takes knowing a person very well and being trusted to succeed. It is the same edge of DXN against other businesses. It is what we also found in our partner, EastWest Bank," Ms. Te says.

RISK MANAGEMENT

Risk management is at the core of EastWest Bank's value creation process.

The Bank's governance structure and risk management framework are intended to provide comprehensive controls and prudent management of the major risks inherent in its business activities. These risks are broadly categorized as credit, market, liquidity and operational risks. The Bank's ability to properly identify, measure, control, and monitor risk is imperative to driving and managing the Bank's strategic direction and financial performance which thus allows for the optimal utilization of its capital.

Risk Identification

The Bank is exposed to various risks in the conduct of its daily business operations. These risks are associated with its lending, trading and capital market activities. Such risks are identified at both the transaction and portfolio level. The Bank is able to identify these risks by employing, among others, product review and underwriting protocols.

Risk Measurement

The Bank measures risk through a variety of methodologies that include calculating, among others, probability of default, loss given default and value-at-risk. It conducts stress tests and compares its risk estimation models with external benchmarks as well. Measurement models and related assumptions are routinely reviewed to ensure that the Bank's risk estimates closely approximate and reasonably reflect the Bank's underlying positions or exposures.

Risk Control

The Bank's risk management policies and procedures incorporate risk mitigation strategies in the form of risk tolerances or limits that are defined by customers, product, industry, country and business. Other risk controls, among others, come in the form of collaterals, insurance coverage, and sound internal controls.

Risk Monitoring

The Bank monitors risk exposures and compliance with prescribed limits at the transaction and portfolio level. This information is reported to management and the RMC on a daily and quarterly basis. Exception findings, if any, are duly reported to the approving authorities for appropriate action.

Risk Governance

The Bank's operating and business units are responsible for managing their respective risks and exposures. Depending on its risk exposures, each business and operations unit works closely with the responsible risk officer of the Bank.

Overseeing the business line and operations units are the following management committees and functional support units of the Bank:

- Loan and Investments Committee (LoanCom):
  Oversees credit-risk taking activities and observes adherence to policies on credit related risks.

- Asset-Liability Management Committee (ALCO):
  Manages market, liquidity and balance sheet-related risks.

- Risk Management Division (RMD):
  Led by the Chief Risk Officer, performs an independent risk governance function within the Bank. In particular, it identifies, measures, controls and monitors existing and emerging risks inherent in the Bank's portfolio and business operations.

- Internal Audit Division (IAD):
  Evaluates the adequacy of existing risk management policies and processes, and inspects compliance by the functional units of the Bank with respect to the prescribed risk policies and processes.

The vanguard of risk governance is the Board of Directors (BOD) who assume the prime responsibility of establishing the risk appetite of the Bank, necessarily, employs the risk culture across the Bank. It is supported by the following board committees in carrying out this responsibility:

- Executive Committee (ExCom):
  Approves credit risk limits for large exposures and performs oversight function on the Bank's over-all credit strategy, profile and performance.

- Risk Management Committee (RMC):
  With the support of RMD, it reviews, approves, and ensures effective implementation of the Bank's risk management framework. It likewise reviews and concurs with types of risk tolerances including portfolio credit tolerances, market and liquidity risk limits, and operational risk parameters presented to the BOD for approval. It also evaluates the magnitude, direction and distribution of risks in the Bank.

- Audit Committee (AuditCom):
  Provides, through the IAD, an independent assessment of the over-all-effectiveness of, and compliance with the Bank's risk management policies and processes.

RISK MANAGEMENT

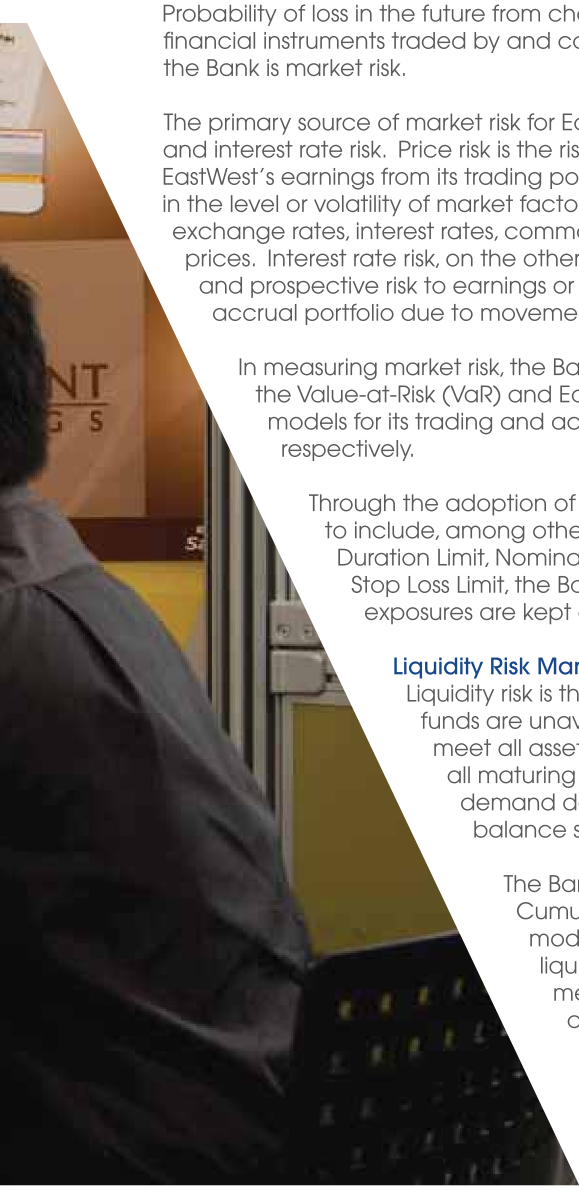
Appropriate capital allocation and monitoring adequacy of the Bank's capital are an integral part of the overall risk management process. Apart from ensuring compliance with BSP regulations, the Bank puts further emphasis on putting in place a more comprehensive capital management process.

Credit Risk Management
Credit risk is the potential loss of revenues or capital arising from Bank counterparty defaulting on a transaction. This risk normally arises from lending, trade financing, trading investments and derivatives, and other activities.

The Bank's credit risk and loan portfolio are managed at the transaction, borrower, product, and portfolio levels. It employs a structured and standardized credit evaluation, risk assessment, limits and approval process suited for each type of business or borrower and/or product segment.

Measuring expected credit losses and appropriate allocation of reserves are based on probability of default and loss given default models taken from the Bank's historical default and loss experience.

Market Risk Management
Probability of loss in the future from changes in the value of financial instruments traded by and carried in the books of the Bank is market risk.



The primary source of market risk for EastWest is price risk and interest rate risk. Price risk is the risk of a decrease in EastWest's earnings from its trading portfolio due to changes in the level or volatility of market factors such as foreign exchange rates, interest rates, commodity prices or equity prices. Interest rate risk, on the other hand, is the current and prospective risk to earnings or capital from its accrual portfolio due to movements in interest rates.

In measuring market risk, the Bank primarily employs the Value-at-Risk (VaR) and Earnings-at-Risk (EaR) models for its trading and accrual portfolio, respectively.

Through the adoption of exposure tolerance, to include, among others, VaR Limit, Modified Duration Limit, Nominal Position Limit, and Stop Loss Limit, the Bank's market risk exposures are kept at acceptable levels.

Liquidity Risk Management
Liquidity risk is the risk that sufficient funds are unavailable to adequately meet all asset purchases and all maturing liabilities, including demand deposits and off-balance sheet commitments.

The Bank uses the Maximum Cumulative Outflow (MCO) model in measuring liquidity risk. This model measures outflow of cash on a cumulative basis and on a tenor basis.

To ensure sufficient liquidity, the Bank adheres to regulatory limits which allocate a portion of liabilities into cash, marketable securities and other liquid assets, and the MCO Limit. A contingency plan is likewise in place to ensure readiness for any liquidity crisis situation.

Operational Risk Management
Risk arising from failed Bank processes and infrastructure and/or external event causes is defined as operational risk. These risks are inherent in each of the Bank's business processes, and operational infrastructure, i.e. people and system or information technology platform of the Bank.

At EastWest, these risks are managed through established internal control system, well-defined policies and procedures for each of the Bank's business operations, and periodic monitoring of its operational loss experience.

For purposes of risk measurement, i.e. with the end goal of establishing the probability of occurrence of operational lapse and magnitude of loss upon such occurrence, the Bank continues to build its historical loss database. These operational risk events are generally classified as follows:

- Fraud and theft
- Employee and workplace or Bank environment–related negligence
- Client, product, and business related malpractices
- Damage to physical asset and Infrastructure
- Business disruption and IT system failure
- Lapse in the execution and management of business process

Risk and Capital Management
By and large, risk management initiatives have been consistent with the Bank's objective of risk-based performance measurement, commonly known as Risk-Adjusted Performance Measure (RAPM). With this measure, return is compared against allocated capital by adopting some form of risk adjustment based on the Bank's assessment of the riskiness of the business it has undertaken.

Appropriate capital allocation and monitoring adequacy of the Bank's capital are thus an integral part of the overall risk management process. Apart from ensuring compliance with the BSP-prescribed capital adequacy ratio of 10%, the Bank puts further emphasis on putting in place a more comprehensive capital management process. This is realized with the introduction of Basel 2's pillar 2 requirement of internal capital adequacy assessment process (ICAAP). ICAAP aims to provide guidance on the adequacy of Bank's available capital relative to its established internal capital requirement that is approximated based on its measured risk exposure. This being a dynamic endeavor, the Bank continuously refines its underlying risk models to reasonably establish its potential loss exposure and capital requirement, and correspondingly allows it to better manage its business and operations in accordance with its risk-taking capability.

CORPORATE GOVERNANCE

EastWest Bank understands it is paramount to establish a corporate governance policy that will ensure the attainment of its vision and objectives.

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In view of this and in compliance with the Corporation Code of the Philippines, Securities Regulations Code, 2009 SEC Revised Code of Corporate Governance and relevant provisions in the 2008 Bangko Sentral ng Pilipinas Manual of Regulations for Banks (BSP MORB), EastWest Bank has prepared a Corporate Governance Manual. The Manual defines the framework of rules, systems and processes that governs the performance by the Board of Directors (Board) and Management of their respective duties and responsibilities to the stockholders of the Bank.

Our Corporate Governance Structure

The Corporate Governance Committee assists the Board in fulfilling its corporate governance responsibilities and providing oversight in the implementation of the bank's compliance system. At the forefront of the implementation process is the Compliance Department, headed by the Chief Compliance Officer.

The Department renders functional supervision over Group Heads, the designated Compliance Coordinators in line units. It partners with the Internal Audit Division which conducts the periodic review of the administration of the compliance system towards the sound management of compliance risks.

A Compliance Program serves as the reference for EastWest Bank and its Trust Department in complying with the provisions of Section X170 of the BSP MORB. The provisions require banks to develop and implement a compliance system which involves a written compliance program duly approved by the Board, among others. The compliance program operates parallel to and is part of the Bank's Internal Control and Auditing Program.

Our Compliance Philosophy

Compliance, which is essential to EastWest Bank's continued growth and stability, is the responsibility of every EastWest Banker. In coordination with the Compliance Department and corollary to the Bank's compliance program, every operating unit/group management develops and implements policies and procedures which must be consistent with the Board-approved compliance program, plans and policies.

Every employee is responsible for having a working knowledge of all relevant laws, rules and regulations applicable to his assignment. Bank personnel are expected to fulfill their duties and responsibilities as set forth in the unit's/group's compliance program.

Supervisors provide adequate and appropriate compliance training. Whenever there are questions regarding limits or constraints, employees consult and coordinate with their supervisors, Department/Division/Group Heads or the Chief Compliance Officer for guidance.

BOARD OF DIRECTORS

ANDREW L. GOTIANUN, SR
Chairman Emeritus

JONATHAN T. GOTIANUN
Chairman

MERCEDES T. GOTIANUN
Director

LOURDES JOSEPHINE T. GOTIANUN YAP
Director

ANTONIO C. MONCUPA, JR.
Director/President/CEO

JOSE S. SANDEJAS
Director

PAUL A. AQUINO
Director

CARLOS R. ALINDADA
Director

ANGELINA S. GUTIERREZ
Director

ATTY. BENEDICTO M. VALERIO JR.
Corporate Secretary

SENIOR MANAGEMENT

ANTONIO C. MONCUPA, JR.
PRESIDENT AND CEO

JACQUELINE S. FERNANDEZ
SENIOR VICE PRESIDENT

GERARDO SUSMERANO
EXECUTIVE VICE PRESIDENT

JUANITA MARGARITA O. UMALI
SENIOR VICE PRESIDENT

ERNESTO T. UY
SENIOR VICE PRESIDENT

RENATO K. DE BORJA, JR.
FIRST VICE PRESIDENT

GRACE N. ANG
VICE PRESIDENT

JOHN FREDERICK P. DY
VICE PRESIDENT

ELVIRA G. LEE
VICE PRESIDENT

PAMELA I. JIMENEZ
VICE PRESIDENT

RENATO P. PERALTA
VICE PRESIDENT

MA. EDWINA L. PINEDA
VICE PRESIDENT

RANDALL ROGELIO A. EVANGELISTA
VICE PRESIDENT

ANN M. TUASON
VICE PRESIDENT

ALLAN M. TUMBAGA
VICE PRESIDENT

SENIOR OFFICERS

Antonio C. Moncupa, Jr.
President and Chief Executive Officer

Gerardo Susmerano
Executive Vice President
and Head for Branch Banking and Operations Cluster

Jacqueline S. Fernandez
Senior Vice President
and Head for Consumer Lending Cluster

Juanita Margarita O. Umali
Senior Vice President
and Head for Bank Operations Group

Ernesto T. Uy
Senior Vice President
and Head for Corporate Banking Group

Renato F. Apolonio
First Vice President and Head
for Corporate Banking (South Luzon) Division

Renato K. de Borja, Jr.
First Vice President and Head for Finance Group

Elisa O. Go
First Vice President and Head
for Corporate Banking (Binondo) Division

Vicente P. Ortuoste
First Vice President and Deputy Head
for Corporate Banking Group

Karl G. Reyes
First Vice President and Head
for Systems Development Division

Ivy B. Uy
First Vice President
and Deputy Head for Branch Banking

Grace N. Ang
Vice President
and Head for Risk Management Division

Doli D. Cabahug
Vice President
and Head for Branch Banking Division 8

Mary Jane D. Caliwan
Vice President
and Head for Branch Banking Division 2

John Frederick P. Dy
Vice President and Head for Call Center Division

Randall Rogelio A. Evangelista
Vice President and Head for IT Group

Edgardo I. Isagon
Vice President and Head
of Policies and Procedures Department

Ma. Agnes E. Jazmines
Vice President and Head
for Corporate Banking Division 2

Pamela I. Jimenez
Vice President and Head for Internal Audit Division

Arlene D. Lamarroza
Vice President and Head for IT Service Management

Elvira G. Lee
Vice President and Head
for Credit Cycle (Auto Loans) Group

Jocelyn C. Legaspi
Vice President and Head
for Credit Policy and Operations Control Division

Jan Nikolai M. Lim
Vice President and Head
for Mortgage & Salary Loans Marketing & Sales Division

Renato P. Peralta
Vice President and Head
for Credit Policy and Review Division

Isabel S. Pijuan
Vice President and Head
for Business Systems Support Division

Ma. Edwina L. Pineda
Vice President and Head for Legal Services Division

Michael Albert R. Rallonza
Vice President and Head for Customer Fulfillment Division

Xavier C. Ramos
Vice President and Head for Auto Loans Sales Division

Raymond T. Reboredo
Vice President and Head for Branch Banking 10 Division

Ben Valentino U. Rodriguez
Vice President and Head for Grace Park Branch

Liberty P. Santos
Vice President and Head for International Services
& Treasury Operations Department

Lilian S. Sengia
Vice President and Head for Retail Sales Division

Nestor J. Sunico
Vice President and Head
for Mortgage & Salary Loans Sales Division

Ann M. Tuason
Vice President and Head for Human Resources Group

Allan John M. Tumbaga
Vice President and Head
for Bank Marketing & Corporate Communications
Division

Alessandro L. Villaraza
Vice President and Head
for Cards Marketing & Merchants Division

Patrick T. Uy
Vice President and Chief of Staff (Office of the President)

PRODUCTS & SERVICES

Consumer Loans

Home Loan
Now offered at 8% per annum (fixed for one year for loan amounts greater than P1.5 million) for a maximum term of 30 years, EastWest Bank Home Loan is one of the most affordable and flexible ways of owning a house. Minimum loan amount is P500,000 with a maximum loan value equivalent to 80% of appraised value for house acquisition or construction, 75% for lot acquisition and 65% for conversion of real estate assets into rental/leasing business. The bank also offers takeout or refinancing of a housing loan.

Auto Loan
With EastWest Bank Auto Loan, purchasing a brand new or second-hand vehicle is easy. The minimum loan amount is P200,000 with a maximum loan value at 80% of the vehicle's selling price for brand new cars and 70% for used vehicles.

Salary Loan
Qualified employees of accredited companies can avail of EastWest Bank Salary Loan, a multi-purpose loan. Minimum loan amount is P10,000 with a maximum loan value equivalent to three times the borrower's gross monthly income or P300,000, whichever is lower. Easy payment terms range from six to 36 months.

Credit Card
EastWest Bank has a suite of credit cards for customers to choose what would best complement their lifestyle.

For those who want to experience life's privileges, the EastWest Bank Gold or Classic Credit Card is the right card. Apart from the usual credit card features, cardholders can take better care of themselves and their family while enjoying the privileges they deserve with the Free Health and Protection benefits. With the Limitless Rewards program, cardholders can redeem Rewards Vouchers that they can use to purchase merchandise or exchange for gift certificates at partner establishments.

For women who look for a credit card that understands and appreciates them for who they are and who they aspire to be, there is the EastWest Bank Dolce Vita MasterCard. It is the only credit card in the market that provides holistic benefits designed exclusively for women. Cardholders enjoy free Health and Protection benefits. Regular use of the EastWest Bank Dolce Vita MasterCard also entitles cardholders to an enviable variety of beauty, pampering and shopping treats with the Dolce Vita Charms rewards program.

For the practical and budget conscious, the EastWest Bank Practical MasterCard is the perfect solution to life's essentials. Cardholders enjoy the lowest monthly interest rates of 2.25% for supermarket, gasoline and drugstore purchases and 2.75% for other purchases. And, they experience the benefit of the lightest monthly payment and flexible membership fee payment option.

Deposit Products

Savings Accounts
EastWest Bank's savings deposits earn an interest rate of 0.50% p.a. Minimum maintaining balance for individual accounts ranges from P5,000 to P10,000, and P20,000 for corporate accounts. Transactions are recorded via passbook (for both regular Peso and Dollar deposits) or statement (for ATM Access savings).

Apart from regular passbook savings (Peso and Dollar) and ATM Access Savings, the bank offers Cool Savers, an account for kids. For an initial deposit of only P2,000, the account holder takes home a gift item. Depositors also get freebies when their average daily balance hits P50,000 and above.

Checking Accounts
In addition to the non-interest bearing regular Checking Account, EastWest Bank offers two interest-earning accounts, the ChequeMax and the ChequeMax Rewards, which both come with a record book for easy tracking of transactions, an ATM card and a checkbook.

With ChequeMax Rewards, accountholders earn rewards points for every P5,000 increment over the required ADB, which they can redeem for gift certificates of Rustan's or SM department stores.

Maintaining balance ranges from P5,000 to P100,000 for individual accounts, and P20,000 to P100,000 for corporate accounts.

Term Accounts
The Peso Time Deposit and Dollar Time Deposit are interest-bearing term accounts that earn yields higher than that of a regular savings deposit. Minimum initial deposit ranges from P10,000 to P500,000 for peso time deposits. For Dollar term accounts, the minimum initial deposit is $1,000. For customers who want to maximize their earnings through tax-free interest income, they can open a Secured Future Fund, a time deposit with a minimum term of five (5) years. Accountholders enjoy guaranteed withholding tax-free yields. It also comes with a free Personal Accident Insurance benefit of up to P1 million.

"EastWest Bank delivered on its promise to provide fast, expeditious, convenient and business-friendly auto loans to finance the fleet requirements of our chapel business."

York B. Vitangcol, President & CEO, St. Peter Group of Companies

PRODUCTS & SERVICES

Treasury & Trust Products

Distribution of Treasury-Related Products
Government-issued short- and long-term debt instruments, which are virtually risk-free investments, are also available in EastWest Bank. Investors can choose from Treasury Bills or Treasury bonds, such as Fixed Rate Treasury Notes (FXTNs) and Retail Treasury Bonds (RTBs), where interest income is paid semi-annually and quarterly, respectively. Clients can also invest in US Bonds, long-term fixed income debt instrument issued by the national government or corporate entities.

Trust Products
For individual & corporate investors who want to earn bigger returns than that of traditional deposit products, they can avail of the Unit Investment Trust Fund (UITF), in which funds of various investors are pooled and invested in a diversified portfolio of highly liquid fixed income securities, term deposits and other high-yielding money market instruments. Investors have the option of investing in a peso- or dollar-denominated UITF.

Corporate Suite (Cash Management Solutions)

Payroll Management
EastWest Bank assists business owners in managing their payroll process through its PayrollAssist, a facility that makes payroll preparation and crediting process easy and convenient via proprietary software developed exclusively for EastWest Bank corporate clients. Periodic crediting of employee payroll is performed via the Payroll Credit System (PCS), a deposit account processing system that features a fully automated online processing of a client company's credit data.

Checking Account & Facilities
Bizcheque Plus is a unique interest-earning checking account that provides a customized stand-alone check-writing facility and a comprehensive Accounts Payable System for hassle-free monitoring of account payables and check payment preparation.

For a company with a high volume of check preparation and disbursement, EastWest Bank provides a solution through Cheque Prepare. It provides an end-to-end automated solution from data creation, check cutting, check disbursement and check status monitoring. With Cheque Depot, the bank safekeeps for corporate clients their post-dated checks (PDCs) for immediate deposit to their account on the same date indicated on the checks.

Collection Facilities
The Bank acts as a collecting agent for its corporate clients via Bills Collect. Payments collected by the bank are consolidated and transmitted to the client online or via electronic file transfer.

Deposit pickup services are also available to EastWest Bank's corporate clients through Collect@Site, in which the bank sends an armored vehicle to pick-up cash and check deposits at the customer's premises.

Corporate Banking

EastWest provides a wide range of loan products and services to its corporate customers. This includes: revolving credit lines (for inventory and receivables financing, etc.), trade finance facilities (i.e., import and/or domestic letters of credit, trust receipts financing, documents against payment/acceptance, export advances and discounting or collection of export bills), acceptances, foreign currency loans, bills purchase and term loans. The Bank caters to industries that have consistently exhibited stability as well as strong growth potentials.

Other Services

Net Access
A 24-hour Online Banking facility that enables individual and corporate clients to access their accounts maintained at any branch by logging on to *www.eastwestbanker.com*. Net Access provides accountholders the convenience of e-Statements, a statement of account/s that shows the accountholder a history of transactions. Through the Internet, accountholders can view, print or access and view the scanned image of the front and backface of a check they have issued a week after its clearing. This is performed through EastWest Bank's Check Imaging Facility, a first of its kind in the industry, that also benefits the environment because of its "paperless" feature.

Mobile Access
A non-traditional banking channel that uses mobile phones to perform basic banking transactions via Short Messages System (SMS) and SIM Tool Kit (STK).

Pay@Store
A facility that allows ATM Access cardholders to use their ATM cards to pay for merchandise and services rendered by the merchant via Point of Sale (POS) terminals installed in accredited establishments.

Bills Pay
A facility that allows settlement of various bills over the counter, ATM and Net Access.

BRANCHES

METRO MANILA

Alabang- Madrigal
G/F Philam Bldg., Acacia Avenue
Madrigal Business Park
Muntinlupa City
Tel: 850-8092 to 95

Anonas
94 Anonas Street corner K-6th Sts.
Kamias, Quezon City
Tel: 434-0057 to 58 / 924-3402

Ayala-Paseo
G/F Philam Tower
8767 Paseo de Roxas, Makati City
Tel: 620-1700 loc. 3005 to 07; 3323 to 24

Banawe
Ground floor PPSTA 1 Bldg.
Quezon Ave. corner Banawe Street
Quezon City
Tel: 412-1681 / 743-0775

Betterliving
100 Doña Soledad Street
Betterliving Subd., Parañaque City
Tel: 823-4280 or 84 / 821-5113

Binondo
UFH Bldg., 459 Quintin Paredes St.
Binondo Manila
Tel: 247-3615 or 52 / 247-3708

Congressional
Blk 7, Lot 4A, Congressional Avenue
Quezon City
Tel: 426-8587 / 926-6609 / 926-5934

Cubao
G/F Fraland Bldg.
232 P.Tuazon Blvd.
Cubao, Quezon City
Tel: 913-4730 / 912-9642 / 913-5266

Del Monte
271 Del Monte Ave.
cor. Biak na Bato Quezon City
Tel: 367-1813 or 22 / 367-1939

Dela Rosa-Pasong Tamo
Ground Flr. King's Court II Bldg.
2129 Chino Roces Ave., Makati City
Tel: 864-0632 / 864-0633 864-0792

Divisoria
802 Ilaya St., Tondo, Manila
Tel: 244-9928 or 72 / 247-4307

EDSA-Kalookan
490 EDSA, Kalookan City
Tel: 364-1862 / 364-1858 to 59

Escolta
413 First United Bldg.
Escolta corner Banquero St.
Binondo, Manila
Tel: 245-3983 to 84 / 247-6536

Festival Mall 1
2nd Level, Festival Supermall
Filinvest Corporate City
Alabang Muntinlupa
Tel: 850-3722 to 23 / 850-3605

Festival Mall 2
Level 1, Festival Supermall
Filinvest Corp. City, Alabang
Muntinlupa
Tel: 842-5981 / 850-6461

Fort Bonifacio
Ground Floor, Marajo Tower
26th St. cor. 4th Ave.
Fort Bonifacio Global City
Taguig City
Tel: 856-0201 / 856-2722 / 856-4275

Gil Puyat
G/F, Metro House Bldg.
345 Sen. Gil Puyat Avenue, Makati City
Tel: 890-8102 / 890-8625 / 890-8323 / 890-8591 / 890-8420

Gov. Pascual
3315 Gov. Pascual Avenue
cor. Maria Clara St., Malabon City
Tel: 332 - 9606 / 332 - 9441 / 351 - 7619

Grace Park
896 8th Ave. cor J. Teodoro St.
Grace Park West, Kalookan City
Tel: 364-9596 / 364-9576 / 361-7545 / 361-8856 / 364-9576

Greenhills Annapolis
G/F Meridien Bldg., 29 Annapolis St.
Greenhills, San Juan, Metro Manila
705-1517 / 705-1623 / 722-6830
Mary Jane Chan

Greenhills West
G/F ALCCO Bldg., Ortigas Ave.
Greenhills-West, San Juan, Metro Manila
Tel: 721-9605 / 721-7289

Intramuros
G/F 104 BF Condominium. A. Serrano Ave. cor. Solano St., Intramuros, Manila
Tel: 527-2604 or 27 or 31

Katipunan St. Ignatius
132 Katipunan Rd.
St. Ignatius Village, Quezon City
Tel: 913-2398 / 913-2370 / 913-2379

Las Piñas
Alabang Zapote Road
cor. Crispina Avenue
Pamplona III, Las Piñas City
Tel: 873-1925 / 872-3656 / 872-4883

BRANCHES

Libis
184-B E. Rodriguez, Jr. Avenue
Bagumbayan, Libis, Quezon City
Tel: 911-3601 / 709-1729 to 30

Main/Ayala
Ground Floor PBCom Bldg.
6795 Ayala Ave. cor. Herrera St.
Salcedo Village, Makati City
Tel: 830-8929 / 986-9438 / 830-8997
/ 830-8798

Malabon
376 F. Sevilla Blvd., Malabon City
Tel: 283-9535 to 36 / 283-9403

Malate
1991 Esperanza Osmena Bldg.
A. Mabini Street, Malate, Manila
Tel: 338-6006 / 404-0536 to 37

Mandaluyong Shaw
G/F Sunshine Square
312 Shaw Blvd, Mandaluyong City
Tel: 666-1528 / 534-3940 / 534-3942

Marikina
324 JP Rizal St.
Brgy. Calumpang, Marikina City
Tel: 647-5756 to 58

New Manila
677 Aurora Blvd.
corner Doña Juana Rodriguez Ave.
New Manila, Quezon City
Tel: 722-6239 / 726-3202 / 725-1700

Ortigas
Unit 103 G/F AIC Gold Tower
Condominium cor. Emerald & Garnet Sts.,
Ortigas Center, Pasig City
Tel: 636-7798 / 687-0036 to 37

Ortigas Tektite
G/F East Tower Philippine Stock Exchange
Center Exchange Road
Ortigas Center, Pasig City
Tel: 637-4164 to 65 / 667-3211

Paseo de Roxas
G/F 111 Paseo de Roxas Bldg.
Paseo de Roxas St. cor Legaspi St.
Legaspi Village, Makati City
Tel: 840-5434 / 840-5442 / 840-5450

Pasig-Poblacion
A. Mabini cor Blumentritt Street
Kapasigan Pasig City
Tel: 643-8729 / 642-8559

Pasig-Shaw Blvd.
27 Shaw Blvd., Pasig City
Tel: 706-4199 / 635-2011 to 12

Paso de Blas (Malinta)
No. 191, Paso de Blas, Valenzuela
Tel: 332-2061 / 332-2620 / 332-2246

Pasong Tamo
G/F Dacon Bldg.
2281 Pasong Tamo Ext. Ave. Makati City
Tel: 892-2825 / 867-2755 to 56

President's Avenue
President's Avenue cor Pres. Marcos St.
Teoville Subd., BF Homes Parañaque City
Tel: 820-3451 / 820-3709 / 820-3706

Quezon Avenue
G/F Sunshine Blvd. Plaza, Quezon Ave.
cor Sct. Santiago and Panay Ave.
Quezon City
Tel: 376-5795 to 96 / 373-8957

Regalado
Regalado Avenue cor Archer St.
North Fairview Subd., Quezon City
Tel: 939-5459 / 417-2822

Roosevelt
184 Roosevelt Avenue
San Francisco del Monte, Quezon City
Tel: 411-8035 / 372-1090 / 372-9480

San Miguel Ave.-Ortigas
Unit 101, G/F Medical Plaza Bldg.
San Miguel Avenue
Ortigas Business Center, Pasig
Tel: 637-5649 or 637-5121

Salcedo
G/F First Life Center
174 Salcedo St.
Legaspi Village, Makati City
Tel: 815-8810 / 815-8490 / 815-8669

T. Alonzo
G/F 623 T. Alonzo St. Sta. Cruz, Manila
733-7627 / 733-9387
/ 733-7645 / 733-9387

Sto. Cristo
Unit 108 Sto. Cristo Po Paw
Sto. Cristo cor. Foderama
Binondo, Manila
Tel: 242-2796 / 247-7110 or 12

Sucat
Unit 707-6 Columbia Complex
Miescor Drive, Ninoy Aquino Ave.
Sto. Niño, Parañaque City
Tel: 852-2846 / 852-2949 / 852-2732

Tandang Sora
Lot 80-A Kalaw Hills Subd, Brgy. Culiat
Tandang Sora, Quezon City
Tel: 951-2550 / 456-6989 / 951-0813

Tomas Morato
257 Tomas Morato cor. Scout Fuentebella
Quezon City
Tel: 929-5313 / 928-6286 / 928-2163

UN Avenue
G/F Philam Bldg., U.N Avenue
cor. Ma. Orosa St., Ermita, Manila
Tel: 575-3345 / 8139820

Valenzuela
JLB Enterprises Bldg, McArthur Highway
Marulas, Valenzuela City
Tel: 291-8961 / 445-0670

Valero
G/F Retail 1B Area, Paseo Parkview Tower
140 Valero St., Makati City
Tel: 751-0002 / 751-0003 / 817-3733 /
892-1249

West Avenue
108 West Avenue
corner West Lawin St.,Quezon City
Tel: 412-4085 / 928-0684

Westgate
Westgate, Filinvest Corporate City
Alabang, Muntinlupa City
Tel: 771-0813 to 14 / 771-0811

PROVINCIAL

Angeles, Pampanga
2014 Sto. Rosario St.
Brgy San Jose, Angeles City
Tel: (045) 888-1984 or 1950

Antipolo-Masinag
Cathay Building, Marcos Highway
Brgy. Mayamot, Antipolo City
Tel: 994-6244 / 682-2250 to 51

Bacolod
Lacson corner Luzuriaga Sts. Bacolod City
Tel: (034)433-8320 to 22

Bacoor
Gen Aguinaldo Highway Bacoor, Cavite
Tel: (046) 417-0395 or 45

Baguio
77 Abanao Ave., Baguio City
Tel: (074) 448-0513 to 15 / 250-6023

Baliuag- Bulacan
Benigno S. Aquino Ave., Poblacion
Baliuag, Bulacan
Tel: (044) 766-5177 or 5308

Batangas
54 A. D. Silang Street corner Pastor St.
Batangas City
Tel: (043) 723-7665 / (02) 520-6143 /
(043) 300-6143

Cabanatuan
Melencio St. corner Gen. Luna St.
Cabanatuan City
Tel: (044) 464-1634 to 35

Cagayan De Oro
50 Juan SIA Bldg.
Don Apolinar Velez St.
Cagayan de Oro City
Tel: (088) 857-8801 or 02

Calamba
Malaya Bldg. Barangay Uno
Crossing, Calamba City
Tel: (049) 545-9018 / 420-8298

Cauayan, Isabela
No. 69, Maharlika Highway
Cauayan City, Isabela
Tel: (078) 652-39-43, 652-39-45, 652-39-46

Cebu - Banilad
G/F Unit 101 of PDI Condominium
Archbishop Reyes Ave., cor J. Panis St.
Banilad, Cebu City
Tel: (032) 232-5582 or 88

Cebu-Escario
Cebu Capitol Commercial Complex Bldg.
N. Escario,Cebu City
Tel: (032) 253-9226 / (032) 255-8250

Cebu-Magallanes
60 Quiaco Bldg., Magallanes
cor. Gonzales Sts., Cebu City
Tel: (032) 254-1940 or 0860 / (032) 245-1005

Cebu Mandaue
G/F Ramcar Bldg.
M.C. Briones Highway
Mandaue City, Cebu
Tel: (032) 346-5268 / (032) 420-5778 to 79

Cebu- Osmeña
G/F Philamlife Bldg.
Osmeña Blvd., Cebu City
Tel: (032) 254-5639 or 7235669
F: 2545645

Cotabato
Don Roman Vilo St., Cotobato City
Tel: (064) 421-5960 to 61

Dagupan
Maria P. Lee Bldg, Perez Blvd.
Dagupan City
Tel: (075) 522-2284 or 9221

Davao-Lanang
Lot 6 Blk 5, Insular Village
Pampanga Buhangin
Lanang Davao City
Tel: (082) 234-0726 or 0686 to 0687 /
(082) 234-0866

Davao-Matina
Fred-Ric Bldg., McArthur Highway
Matina, Davao City
Tel: (082) 297-0012 or 4183

Davao-Sta. Ana
G/F GH Depot Bldg., Gov. Sales St.
Sta. Ana Davao City
Tel: (082) 221-4019 or 21

Iloilo
Sta Cruz Arancillo Bldg.
Ledesma cor. Fuentes Sts, Iloilo City
Tel: (033) 336-0441 to 43/ (033) 433-8320

Imus
G/F LDB Bldg.
552 Gen. Aguinaldo Highway
Imus,Cavite
Tel: (046) 471-5088 or 5188

Isabela
74 National Highway
Brgy. Victory Norte
Santiago City, Isabela
Tel: (078) 305-0344 / (078) 682-7258

La Union
Quezon Ave., cor Ancheta St.
San Fernando, La Union
Tel: (072) 700-0008 /
(072) 700-0011 to 12

Laoag
Ablan Bldg., J.P. Rizal Ave. corner Don
Severo Hernando Ave., Laoag City
Tel: (077) 770-5195 or 96

Lipa
No. 18 B. Morada Ave., Lipa City
Tel: (043) 784-1377 or 1396

Lucena
152 Quezon Avenue, Lucena City
Tel: (042) 373-7625 to 26

Naga
LAM Bldg., 19 Penafrancia Ave.
Zone 1, San Francisco, Naga City
Tel: (054) 472-6502 / (054) 811-1003

San Fernando, Pampanga
Felix S. David Bldg., Mc Arthur Highway
San Fernando Pampanga
Tel: (045) 961-7936 to 38

Tacloban
141 Justice Romualdez St.
Tacloban City
Tel: (053)- 321-9955 / (053) 523-6723

Tarlac
Mariposa Bldg.,F. Tanedo St., Tarlac City
Tel: (045) 982-3567 or 1691

Taytay
Valley Fair Town Center, Taytay, Rizal
Tel: 660-9227 / 660-1828 / 660-1826

Urdaneta, Pangasinan
G/F of S&P North Mall
McArthur Nancayasan
Urdaneta City, Pangasinan.
Tel: (075) 656-28-38 / (02) 250-62-15

Zamboanga
Valderroza St. cor Corcuerra St.
Zamboanga City
Tel: (062) 992-6571 or 74

AUDITED FINANCIAL STATEMENTS

CONTENTS

Statement of Management Responsibility

The management of East West Banking Corporation is responsible for all information and representations contained in the statements of financial position as of and for the years ended December 31, 2009 and 2008, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended, and a summary of significant accounting policies and other explanatory notes. The financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Bank's Audit Committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Bank.

SyCip, Gorres, Velayo& Co, the independent auditors appointed by the Board of Directors and stockholders have examined the financial statements of the Bank in accordance with Philippine Standards on Auditing and have expressed their opinion in the fairness of presentation upon completion of such audit in the attached report to the Board of Directors and stockholders.

JONATHAN T. GOTIANUN
Chairman of the Board

ANTONIO C. MONCUPA, JR.
President and CEO

RENATO K. DE BORJA, JR.
Finance Head

Independent Auditor's Report

The Stockholders and the Board of Directors
East West Banking Corporation

We have audited the accompanying financial statements of East West Banking Corporation (the Bank), which comprise the balance sheets as of December 31, 2009 and 2008, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes,

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippines Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. Except as discussed in paragraph 6, 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 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 auditor's report dated April 8, 2009, our opinion on the 2008 financial statements was qualified because we were not able to perform audit procedures on certain accounts with total net assets balance amounting to ₱304.62 million, included in Other assets accounts, net debit unreconciled items of Due from Bangko Sentral ng Pilipinas and other banks and Other liabilities amounting to ₱114. 71 million since the Bank was then reviewing the transaction details related to the suspense accounts and unreconciled items. As disclosed in Note 30 to the financial statements, the Bank has restated the 2008 financial statements as a result of the review and reconciliation performed on the December 31, 2008 balances of certain accounts, resulting in recognition of an impairment loss amounting to ₱47.77 million in 2008, net of related deferred tax assets, and adjustments resulting in decrease in Due from Bangko Sentral ng Pilipinas amounting to ₱272.57 million, increase in Due from other banks amounting to ₱157.86 million and increase in Other assets amounting to ₱114.71 million. Accordingly, our opinion on the 2008 financial statements, as presented herein, is no longer qualified.

In our opinion, the financial statements present fairly, in all material respects, the financial position of East West Banking Corporation as of December 31, 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso

Janet A. Paraiso
Partner
CPA Certificate No. 92305
SEC Accreditation No. 0778-A
Tax Identification No. 193-975-241
PTR No. 2087360, January 4, 2010, Makati City

March 25, 2010

Statement of Financial Position

	December 31	
	2009	2008 (As restated - Note 30)
ASSETS		
Cash and Other Cash Items (Notes 15 and 20)	**₱1,605,786,884**	₱1,756,510,279
Due from Bangko Sentral ng Pilipinas - net (Notes 14, 15 and 20)	**6,322,226,839**	4,605,556,766
Due from Other Banks (Notes 20)	**3,285,004,624**	873,185,652
Interbank Loans Receivable and Securities Purchased Under Resale Agreement (Notes 7 and 20)	**8,933,100,000**	6,020,000,000
Financial Assets at Fair Value Through Profit and Loss (Notes 8 and 20)	**1,487,101,550**	453,403,460
Available-for-Sale Investments - net (Notes 8, 14 and 20)	**15,245,085,100**	4,730,144,767
Held-to-Maturity Investments (Notes 8 and 20)	**–**	5,628,247,116
Loans and Receivables - net (Notes 9, 14, 20 and 26)	**32,856,387,270**	21,942,206,035
Property and Equipment - net (Notes 10 and 20)	**961,304,613**	647,703,374
Investment Properties - net (Notes 11, 14 and 20)	**817,190,814**	667,488,316
Deferred Tax Assets - net (Notes 20 and 23)	**1,082,289,875**	625,005,610
Intangible Assets (Notes 6, 13 and 20)	**1,107,350,551**	150,211,812
Other Assets - net (Notes 12, 14 and 20)	**1,299,500,535**	975,871,242
	₱75,002,328,655	₱49,075,534,429
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 15, 20 and 26)		
Demand	**₱14,765,014,179**	₱10,419,786,385
Saving	**8,352,259,971**	5,981,289,632
Time	**34,955,515,309**	22,945,739,886
Long-term negotiable certificates of deposits	**1,712,056,180**	–
	59,784,845,639	39,346,815,903
Bills and Acceptances Payable (Notes 16 and 20)	**1,957,637,301**	2,385,717,275
Accrued Taxes, Interest and Other Expenses (Notes 17 and 20)	**498,928,300**	309,854,246
Cashier's Checks and Demand Draft Payable (Note 20)	**822,253,813**	176,111,052
Subordinated Debt (Notes 18 and 20)	**1,250,000,000**	1,250,000,000
Other Liabilities (Notes 19 and 20)	**2,549,101,941**	1,628,843,144
	66,862,766,994	45,097,341,620

(Forward)

	December 31	
EQUITY	**2009**	2008 (As restated - Note 30)
Common stock (Note 21)		
Preferred stock (Note 21)	**₱3,873,528,100**	₱3,873,528,100
Surplus reserves (Note 27)	**3,000,000,000**	–
Surplus (Notes 14 and 27)	**28,571,016**	21,575,445
Net unrealized gains (losses) on available-for-sale investments (Note 8)	**979,289,893**	364,627,284
Translation adjustment (Note 2)	**272,407,847**	(289,601,784)
	(14,235,195)	8,063,764
	8,139,561,661	3,978,192,809
	₱75,002,328,655	₱49,075,534,429

See accompanying Notes to Financial Statements.

Statements of Income

	Years Ended December 31	
	2009	2008 (As restated - Note 30)
INTEREST INCOME		
Loans and receivables (Notes 9 and 26)	**₱3,884,251,224**	₱2,161,202,254
Trading and investment securities (Note 8)	**1,029,902,918**	656,728,469
Due from other banks and interbank loans receivable and securities purchased under resale agreement	**285,297,682**	343,420,912
	5,199,451,824	3,161,351,635
INTEREST EXPENSE		
Deposit liabilities (Note 15)	**1,443,096,651**	1,075,861,737
Subordinated debt, bills payable and other borrowings (Notes 16 and 18)	**226,825,672**	93,630,000
	1,669,922,323	1,169,491,737
NET INTEREST INCOME	**3,529,529,501**	1,991,859,898
Service charges, fees and commissions	**912,963,616**	778,423,523
Trading and securities gain (loss) - net (Note 8)	**426,734,155**	124,669,521
Foreign exchange gain (loss) - net	**235,186,952**	(78,651,218)
Gain on sale of assets	**104,001,967**	22,346,753
Gain on asset foreclosure and dacion transactions	**91,981,538**	13,667,441
Trust income (Note 27)	**69,955,713**	52,100,462
Dividend income	**190,106**	116,987
Miscellaneous	**98,488,430**	47,511,243
TOTAL OPERATING INCOME	**5,469,031,978**	2,952,044,610
OPERATING EXPENSES		
Provision for impairment and credit losses (Notes 9, 11, 12 and 14)	**1,255,400,842**	556,411,381
Compensation and fringe benefits (Notes 24 and 26)	**1,048,327,589**	625,863,481
Taxes and licenses	**378,278,074**	220,229,181
Depreciation and amortization (Notes 10, 11 and 12)	**278,692,701**	157,617,452
Rent (Note 25)	**237,789,406**	154,528,418
Amortization of intangible assets (Notes 12 and 13)	**63,911,769**	47,477,045
Miscellaneous (Note 22)	**1,536,916,828**	886,321,977
TOTAL OPERATING EXPENSES	**4,799,317,209**	2,648,448,935
INCOME BEFORE INCOME TAX	**669,714,769**	303,595,675
PROVISION FOR INCOME TAX (Note 23)	**48,056,589**	181,879,208
NET INCOME	**₱621,658,180**	₱121,716,467

See accompanying Notes to Financial Statements.

Statements of Comprehensive Income

	Years Ended December 31	
	2009	2008 (As restated - Note 30)
NET INCOME FOR THE YEAR	**₱621,658,180**	₱121,716,467
OTHER COMPREHENSIVE INCOME		
Net change in fair value of available-for-sale investments	**562,009,631**	(275,076,514)
Translation adjustment	**(22,298,959)**	8,063,764
TOTAL OTHER COMPREHENSIVE INCOME	**539,710,672**	(267,012,750)
	₱1,161,368,852	(₱145,296,283)

See accompanying Notes to Financial Statements.

Statements of Changes in Equity

	Common Stock	Preferred Stock	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Translation Adjustments	Total Equity
Balances at January 1, 2009, as previously reported	**₱3,873,528,100**	**₱–**	**₱21,575,445**	**₱412,397,049**	**(₱289,601,784)**	**₱8,063,764**	**₱4,025,962,574**
Prior period adjustment (Note 30)	–	–	–	(47,769,765)	–	–	(47,769,765)
Balances at January 1, 2009, as restated	3,873,528,100	–	21,575,445	364,627,284	(289,601,784)	8,063,764	3,978,192,809
Issuance of preferred shares (Note 21)	–	3,000,000,000	–	–	–	–	3,000,000,000
Total comprehensive income	–	–	–	621,658,180	562,009,631	(22,298,959)	1,161,368,852
Transfer from surplus to surplus reserves (Note 27)	–	–	6,995,571	(6,995,571)	–	–	–
Balances at December 31, 2009	**₱3,873,528,100**	**₱3,000,000,000**	**₱28,571,016**	**₱979,289,893**	**₱272,407,847**	**(₱14,235,195)**	**₱8,139,561,661**
Balances at January 1, 2008	₱3,873,528,100	₱–	₱16,365,399	₱248,120,863	(₱14,525,270)	₱–	₱4,123,489,092
Total comprehensive income, as previously reported	–	–	–	169,486,232	(275,076,514)	8,063,764	(97,526,518)
Prior period adjustment (Note 30)	–	–	–	(47,769,765)	–	–	(47,769,765)
Total comprehensive income, as restated	–	–	–	121,716,467	(275,076,514)	8,063,764	(145,296,283)
Transfer from surplus to surplus reserves (Note 27)	–	–	5,210,046	(5,210,046)	–	–	–
Balances at December 31, 2008, as restated	₱3,873,528,100	₱–	₱21,575,445	₱364,627,284	(₱289,601,784)	₱8,063,764	₱3,978,192,809

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Years Ended December 31	
	2009	2008 (As restated - Note 30)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱669,714,769**	₱303,595,675
Adjustments for:		
Depreciation and amortization (Notes 10, 11 and 12)	**278,692,701**	157,617,452
Amortization of intangible assets (Notes 12 and 13)	**68,444,098**	47,477,045
Gain on sale of assets	**(104,001,967)**	(22,346,753)
Gain on asset foreclosure and dacion transactions	**(91,981,538)**	(13,667,441)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Financial assets at fair value through profit and loss	**(1,080,295,254)**	905,008,453
Loans and receivables	**(2,867,720,380)**	(3,988,828,043)
Other assets	**(82,634,612)**	(490,500,825)
Increase in the amounts of:		
Deposit liabilities	**11,735,316,411**	8,073,229,621
Accrued taxes, interest and other expenses	**6,745,803**	134,353,427
Cashier's checks and demand draft payable	**550,450,348**	3,091,503
Other liabilities	**645,993,062**	682,824,990
Net cash generated from operations	**9,728,723,441**	5,791,855,104
Income taxes paid	**(246,150,495)**	(139,687,443)
Net cash provided by operating activities	**9,482,572,946**	5,652,167,661
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Available-for-sale investments	**55,005,139,844**	47,511,482,826
Investment properties (Note 11)	**(115,187,041)**	137,036,239
Proceeds from maturity of held-to-maturity investments	**1,141,049,171**	373,373,922
Write-off of capitalized computer software (Note 12)	**4,532,329**	21,308,947
Acquisitions of:		
Available-for-sale investments	**(59,326,567,008)**	(50,346,566,192)
Held-to-maturity investments	**(536,650,000)**	(4,943,327,574)
Property and equipment (Note 10)	**(418,011,919)**	(174,792,001)
Capitalized computer software (Note 12)	**(175,062,688)**	(106,416,303)
Business combination - net of cash acquired (Note 6)	**57,129,991**	–
Net cash used in investing activities	**(4,363,627,321)**	(7,527,900,136)

(Forward)

	Years Ended December 31	
	2009	2008 (As restated - Note 30)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills payable	**₱116,207,524,633**	₱192,525,757,911
Payments of bills and acceptances payable	**(117,435,604,607)**	(191,506,820,287)
Issuance of preferred stock	**3,000,000,000**	–
Issuance of subordinated debt	**–**	1,250,000,000
Net cash provided by financing activities	**1,771,920,026**	2,268,937,624
NET INCREASE IN CASH AND CASH EQUIVALENTS	**6,890,865,651**	393,205,149
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**1,756,510,279**	1,388,731,710
Due from Bangko Sentral ng Pilipinas	**4,605,556,766**	4,236,218,248
Due from other banks	**873,185,652**	855,513,590
Interbank loans receivable and securities purchased under resale agreement	**6,020,000,000**	6,381,584,000
	13,255,252,697	12,862,047,548
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**1,605,786,884**	1,756,510,279
Due from Bangko Sentral ng Pilipinas	**6,322,226,840**	4,605,556,766
Due from other banks	**3,285,004,624**	873,185,652
Interbank loans receivable and securities purchased under resale agreement	**8,933,100,000**	6,020,000,000
	₱20,146,118,348	₱13,255,252,697

NET OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	2009	2008
Interest received	**₱5,118,297,905**	₱2,971,114,493
Interest paid	**1,712,058,824**	1,056,631,886
Dividend received	**190,106**	116,987

See accompanying Notes to Financial Statements.

Notes to Financial Statements

1. Organization and Status of Operations

East West Banking Corporation (the Bank) was granted authority by the Bangko Sentral ng Pilipinas (BSP) to operate as a commercial bank under Monetary Board Resolution No. 101 dated July 6, 1994, and commenced operations on July 8, 1994. The Bank is effectively 99.00% owned by Filinvest Development Corporation (FDC). The Bank's ultimate parent company is ALG Holdings Corporation.

The Bank is a domestic corporation registered with the Securities and Exchange Commission (SEC) on March 22, 1994. Through its network of 89 and 80 branches as of December 31, 2009 and 2008, respectively, the Bank provides a wide range of financial services to consumer and corporate clients. The Bank's principal banking products and services include deposit-taking, loan and trade finance, treasury, trust services, credit cards, cash management and custodial services. Its principal place of business is at the 20th Floor, PBCom Tower, 6795 Ayala Avenue corner Herrera Street, Makati City.

On March 12, 2009 (acquisition date), the Bank effectively obtained control of the following entities:

a) AIG Philam Savings Bank (AIGPASB)
b) PhilAm Auto Finance and Leasing, Inc. (PAFLI)
c) PFL Holdings, Inc. (PFLHI)

The acquisition date was determined through the execution of a Deed of Absolute Sale of Shares with the American International Group, Inc. (AIG) and certain AIG subsidiaries, including the Philippine American Life and General Insurance Company and AIG Consumer Finance Group (see Note 6).

The accompanying financial statements of the Bank were approved and authorized for issue by the Board of Directors (BOD) on March 25, 2010.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The 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 pesos 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, which is the Bank's presentation currency (see accounting policy on Foreign currency translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

All values are rounded to the nearest peso unless otherwise stated.

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

Changes in Accounting Policies
The Bank's accounting policies are consistent with the previous year except for the adoption of the following amendments to PFRS, Philippine Accounting Standard (PAS), and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) starting January 1, 2009:

New Standards and Interpretations
PAS 1, *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in a single statement, or in two (2) linked statements. The Bank has elected to present 2 linked statements and has changed the title of its 'balance sheet' to 'statement of financial position.'

The revised standard also requires the Bank to present a statement of financial position at the beginning of the earliest comparative period when (a) a new accounting policy is applied retrospectively; or (b) there is a retrospective restatement or reclassification. The Bank has restated its 2008 financial statements as a result of the verification performed on December 31, 2008 balances of certain accounts (see Note 30). The restatement did not have any impact to the assets and liabilities of the Bank as of January 1, 2008. As such, the Bank did not present the January 1, 2008 statement of financial position as the Bank believes such information is no longer material and had no impact on the comparative statement of financial position.

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
Philippine Interpretation IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. The adoption of the Interpretation has no significant impact on the current or comparative results.

Amendments to Standards
PFRS 7 Amendments - *Improving Disclosures about Financial Instruments*
The amendments to PFRS 7, *Financial Instruments: Disclosures,* require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 5. The liquidity risk disclosures are presented in Note 4.

The issuance and amendments to the following PAS and Philippine Interpretations did not have any impact on the accounting policies, financial position or performance of the Bank:

- PAS 23, *Borrowing Costs (Revised)*
- PAS 32 and PAS 1 Amendments - *Puttable Financial Instruments and Obligations Arising on Liquidation*
- PFRS 1 and PAS 27 Amendments - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- PFRS 2, Amendment - Vesting Conditions and Cancellations
- PFRS 8, Operating Segments
- Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation
- Philippine Interpretation IFRIC 18, Transfers of Assets from Customers

Improvements to PFRS 2008
The omnibus amendments to PFRSs issued in 2008 and 2009 (with respect to PAS 18, *Revenue*) were issued primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard. The adoption of the amendments resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Bank.

<u>Foreign Currency Translation</u>
Transactions and balances
The books of accounts of the RBU are maintained in Philippine peso, while those of the FCDU are maintained in USD. For financial reporting purposes, the monetary assets and liabilities of the FCDU and the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the PDS weighted average rate (PDSWAR) for the year. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities are credited to or charged against operations in the period in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. 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 the reporting date, the assets and liabilities of FCDU of the Bank are translated into the Bank's presentation currency (the Philippine peso) at PDS closing rate prevailing at the statement of financial position date, and its income and expenses are translated at PDSWAR for the year. Exchange differences arising on translation are taken to statement of comprehensive income under 'Translation adjustment.'

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date - the date that an asset is delivered to or by the Bank. Securities transactions and related commission income and expense are recorded also on a settlement date basis. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Bank or advanced to the borrowers. Derivatives are recognized on a trade date basis.

The Bank recognized financial instruments when, and only when, the Bank becomes a party to the contractual terms of the financial instruments.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of investments includes transaction costs. The Bank classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables, while financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market and for HTM investments, the ability and intention to hold the investment until maturity. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

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

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

For a financial asset reclassified out of the AFS investments category to loans and receivables or HTM investments, any previous gain or loss on that asset that has been recognized in the statement of comprehensive income is amortized to profit or loss over the remaining life of the investment using the effective interest rate (EIR) method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of asset using EIR method. If the asset is subsequently determined to be impaired then the amount recorded in the statement of comprehensive income is recycled to the statement of income.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

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

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

'Day 1' difference
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where transaction price used is made of data which 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.

Derivative financial instruments
The Bank is a counterparty to derivative contracts, such as currency forwards. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading and securities gain (loss) - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Bank does not apply hedge accounting.

Embedded derivatives that are bifurcated from the host financial and non-financial contracts are also accounted for at FVPL.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL. The Bank assesses whether embedded derivatives are required to be separated from the host contracts when the Bank first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows.

As of December 31, 2009 and 2008, the Bank has no embedded derivatives.

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

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

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

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

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

As of December 31, 2009 and 2008, the Bank has no designated financial assets and liabilities at FVPL.

HTM investments
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. Where the Bank sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments.

After initial measurement, these investments are subsequently measured at amortized cost using the EIR method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment and credit losses'. The effects of restatement on foreign currency denominated HTM investments are recognized in the statement of income.

Loans and receivables
This financial asset category relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Loans and receivables' and 'Interbank loans receivable (IBLR) and Securities purchased under resale agreement (SPURA)'. These are nonderivative financial assets with fixed or determinable payments and fixed maturities

that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as 'financial assets held for trading', designated as 'AFS investments' or 'Financial assets designated at FVPL'. 'Loans and receivables' also include receivables arising from transaction on credit cards operation.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR 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 effective interest rate. The amortization is included in the 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for impairment and credit losses' in the statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as financial assets held for trading, designated as FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. These include debt and equity instruments.

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

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

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities under 'Deposit liabilities', 'Bills and acceptances payable' or other appropriate financial liability accounts, where 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, bills payable and similar financial liabilities not qualified as and not designated as FVPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issuance and fees that are an integral part of the effective interest rate.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

- 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 of the asset.

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

Financial liabilities

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

Repurchase and reverse repurchase agreements

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

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized on the statement of financial position. The corresponding cash paid, including accrued interest, is recognized in the statement of financial position as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the EIR method.

Impairment of Financial Assets

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. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables and amounts due from banks

For loans and receivables and due from banks carried at amortized cost, 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. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, 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.

Financial 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. 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 effective interest rate 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 impairment and credit 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.

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

HTM investments
The Bank assesses individually whether there is objective evidence of impairment. 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 estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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 effective interest rate of the asset.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to 'Provision for impairment and credit losses' in the statement of income and the allowance account, reduced. The HTM investments, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

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 other comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in statement of comprehensive income.

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

Restructured loans
Loan restructuring 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 subjected 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 impairment and credit losses' in the statement of income.

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

agreements, where the related assets and liabilities are presented gross in the statement of financial position.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

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

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

a) *Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit related fees, asset management fees, portfolio and other management fees, and advisory fees.

b) *Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Bank retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

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

Trading and securities gain (loss) - net
Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities held for trading and gains and losses from disposal of financial assets held for trading and AFS investments.

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

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned discount' and is shown as a deduction from 'Loans and receivables' in the statement of financial position.

The unearned discount is taken up to income over the installment terms and is computed using the effective interest method.

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

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, and IBLR and SPURA with original maturities of three months or less from dates of placements and that are subjected to insignificant risks of changes in value.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties including buildings, leasehold improvements and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally 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 additional cost of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the property and equipment.

Buildings	30 years
Furniture, fixtures and equipment	3-5 years
Leasehold improvements	5 years or the lease term whichever is shorter

The estimated 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.

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under 'Investment properties' upon: a.) entry of judgment in case of judicial foreclosure; b.) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c.) notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

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

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the statement of income under 'Miscellaneous income' in the year of retirement or disposal.

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

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed 10 years for both buildings and condominium units.

Foreclosed properties of land or building are classified under investment properties from foreclosure date. Other foreclosed properties which do not qualify as land or building are classified as other properties acquired included in 'Other assets' in the statement of financial position.

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

Business Combinations

Business combinations are accounted for using the purchase method of accounting. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the statement of income in the year of acquisition.

Intangible Assets

Intangible assets include goodwill, customer relationship, core deposit and capitalized computer software (presented under Other assets).

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 13).

Customer relationship and core deposit

Customer relationship and core deposit are the intangible assets acquired by the Bank through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Bank. Following initial recognition, customer relationship and core deposits are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to acquisition of AIGPASB is amortized on a straight-line basis over its useful life of 40 years while the customer relationship from PAFLI and core deposit from AIGPASB are amortized on a straight-line basis over its useful life of 13 and 10 years, respectively (see Note 6).

Capitalized computer software
Capitalized computer software, included under 'Other asset,' as acquired separately is measured at cost on initial recognition. Following initial recognition, capitalized software is carried at cost less accumulated amortization and any accumulated impairment losses. The capitalized software is amortized on a straight-line basis over its useful economic life of five years.

Impairment of Nonfinancial Assets
An assessment is made at each statement of financial position date whether there is any indication of impairment on property and equipment, investment properties, other properties acquired and intangible assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its fair value less cost to sell.

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.

The following criteria are also applied in assessing impairment of specific assets:

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

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (or group of cash-generating units) is less than the carrying amount of the cash generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performed its annual impairment test of goodwill as of December 31, 2009 and 2008.

Other intangible assets
Other intangible assets such as customer relationship, core deposits and capitalized computer software are assessed for impairment whenever there is an indication that it may be impaired.

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.

Expense Recognition
Expenses are recognized in the statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are recognized in the statement of comprehensive income:
- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or

- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statements of financial position as an asset.

Expenses in the statements of comprehensive income are presented using the function of expense method. General and administrative expenses are cost attributable to administrative and other business activities of the Bank.

Retirement Cost
The Bank has a funded, noncontributory defined benefit retirement plan (the Plan). The retirement cost of the Bank is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The liability recognized in the statement of financial position with respect to defined benefit pension 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. In case the fair value of the plan assets exceed the present value of the defined benefit obligation, the recognition of the net plan assets should not exceed the total of (a) any cumulative unrecognized net actuarial losses and past service cost and (b) the present value of any economic benefits available in the form of refunds from the Plan or reductions in future contributions to the Plan.

The 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 rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10.00% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working life of the employees participating in the Plan.

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

Provisions and Contingencies
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and where, appropriate, the risk specific to the liability. Where discounting is used, the

increase in the provision due to the passage of time is recognized as 'Interest expense 'in the statement of income.

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

Income Taxes

Current taxes

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

Deferred taxes

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 the excess of Minimum Corporate Income Tax (MCIT) over the regular income tax and unused Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

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

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.

Events after the Financial Reporting Date

Post year-end events that provide additional information about the Bank's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material to the financial statements.

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.

Equity

Capital stock is measured at par value for all shares issued. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional Paid-in Capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Bank, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct cost incurred related to the equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to "Additional Paid-in Capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings.

Retained earnings represent accumulated earnings of the Bank less dividends declared.

Earnings per Share (EPS)

Basic EPS is determined by dividing the net income for the year attributable to common shares by the weighted average number of common shares outstanding during the year while diluted EPS is computed by dividing net income for the year attributable to common shares by the weighted average number of outstanding and dilutive potential common shares. Basic and diluted EPS are given retroactive adjustments for any stock dividends declared in the current year, if any.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when declared and approved by the respective shareholders of the Bank. Dividends for the year that are declared and approved after the statement of financial position date, if any, are dealt with as an event after the statement of financial position date and disclosed accordingly.

Future Changes in Accounting Policies

The Bank will adopt the following 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, PAS and Philippine Interpretations to have significant impact on its financial statements.

New Standards and Interpretation

PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended)

The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*

This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*

This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

Amendments to Standards

PAS 39 Amendment - *Eligible Hedged Items*

The amendment to PAS 39, *Financial Instruments: Recognition and Measurement,* effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transactions*

The amendments to PFRS 2, Share-based Payments, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions.

Improvements to PFRSs 2009

The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods financial years January 1, 2010 except otherwise stated. The Bank has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payment:* clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations:* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segment Information:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements:* clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows:* explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases:* removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets:* clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets:* clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement:* clarifies the following:
  a. that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
  b. that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
  c. that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives:* clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation:* states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

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 judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as these 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.

The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a) *Fair value of financial instruments*
   Where the fair values of financial assets and financial liabilities recorded on 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 inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values (see Note 5).

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

   In 2009, the Bank participated in a debt exchange program for certain HTM investments. Accordingly, the Bank reclassified its entire HTM portfolio to AFS investments. Total amortized costs of HTM investments reclassified to AFS investments amounted to ₱5.90 billion. The fair value of HTM investments at the date of reclassification amounted to ₱6.13 billion (see Note 8).

   The reclassification also resulted to recognition of unrealized gain amounting to P=239.66 million in the statement of comprehensive income.

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

d) *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 counsels 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 its financial position. 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 (see Note 28).

e) *Functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates,* requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In 2008, the Bank determined that the FCDU's functional currency is USD. In making this judgment, the Bank considers the following:
a) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled)
b) the currency in which funds from financing activities are generated; and
c) the currency in which receipts from operating activities are usually retained.

f) *Operating leases*
The Bank has entered into a lease commitment for its occupied offices and branches. The Bank has determined that all significant risks and rewards of ownership are retained by the respective lessors. 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 (see Note 25).

Estimates

a) *Credit losses of loans and receivables*

The Bank reviews its loans and receivables at each statement of financial position date to assess whether provision for credit losses should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of 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.

As of December 31, 2009 and 2008, the allowance for credit losses on loans and receivables of the Bank amounted to ₱3.27 billion and ₱1.52 billion, respectively. Loans and receivables are carried at ₱32.86 billion and ₱21.94 billion as of December 31, 2009 and 2008, respectively (see Notes 9 and 14).

b) *Fair values of derivatives*

The fair values of derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

As of December 31, 2009 and 2008, derivative liabilities included in other liabilities amounted to ₱43.00 million and ₱2.15 million (see Note 5).

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 or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 20.00% or more of the original cost of investment, and 'prolonged' (as greater than 12 months). In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equity instruments.

As of December 31, 2009 and 2008, the carrying value of AFS equity investments amounted to ₱123.22 million and ₱74.10 million, respectively (see Note 8).

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

The Bank recognized net deferred tax assets amounting to ₱1.08 billion and ₱625.01 million as of December 31, 2009 and 2008, respectively. The Bank has unrecognized deferred tax assets amounting to ₱33.00 million as of December 31, 2009 and 2008 (see Note 23).

e) *Impairment of property and equipment and investment properties*
The Bank assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the 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.

As of December 31, 2009, the carrying value of the property and equipment and investment properties amounted to ₱961.30 million and ₱817.19 million, respectively. As of December 31, 2008, the carrying value of the property and equipment and investment properties amounted to ₱647.70 million and ₱667.49 million, respectively (see Notes 10 and 11).

f) *Goodwill*
The Bank determines whether goodwill is impaired at least on an annual basis. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Bank has used the cost of equity as the discount rate for the value-in-use (VIU) computation. The Bank determined the cost of equity using capital asset pricing model.

Future cash flows from the business are estimated based on the theoretical annual income of the cash generating units. Average growth rate was derived from the average increase in annual income during the last 5 years.

The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from financial budgets approved by the BOD covering a five-year period. The pre-tax discount rate applied to cash flow projections is 12.00%. Key assumptions in value-in-use calculation of CGUs are most sensitive to the following assumptions: a.) interest margin; b.) discount rates; c.) market share during the budget period; and d.) projected growth rates used to extrapolate cash flows beyond the budget period. This requires an estimation of the value in use, which requires the Bank to make an estimate of the expected future cash flows and to choose a suitable discount rate in order to calculate the present value.

As of December 31, 2009 and 2008, the carrying value of goodwill amounted to ₱919.25 million and ₱150.21 million, respectively. In 2009 and 2008, the Bank has no provision for impairment loss on goodwill (see Note 13).

g) *Estimated useful lives of property and equipment, depreciable investment properties and other repossessed assets*
The Bank reviews on an annual basis the estimated useful lives of property and equipment, depreciable investment properties and repossessed assets 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, depreciable investment properties and other repossessed assets would decrease their respective balances and increase the recorded depreciation and amortization expense.

As of December 31, the carrying values of bank premises, furniture, fixtures and equipment and investment properties follow:

	2009	2008
Property and equipment (Note 10)	**₱961,304,613**	₱647,703,374
Investment properties (Note 11)	**817,190,814**	667,488,316
Other repossessed assets (Note 12)	**194,168,920**	202,268,493

4. Financial Risk Management Objectives and Policies

Risk Management
Risk management is at the core of the Bank's value creation process. It is performed at the strategic, portfolio, and transaction levels. At the strategic level, the Bank sets revenue goals and defines its risk philosophy to create a risk culture within the Bank. Revenue goals are incorporated in the business plans putting emphasis on the

identification and quantification of risk attendant to its various revenue activities. The emphasis on risks allows for basic reward/risk trade-off analyses not only in the financial planning process but also in the risk-taking process. As a result, the business plan presents the amount of risks to be taken in achieving the desired revenue goals.

The Bank's activities are principally related to the use of financial instruments and are exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks. Forming part of a coherent risk management system are the risk concepts, trading tools, analytical models, statistical methodologies, historical studies and market analysis, which are being employed by the Bank. These tools support the key risk process that involves identifying, measuring, controlling and monitoring risks.

<u>Risk Management Structure</u>

a. BOD
   The Bank's risk culture is practiced and observed across the Bank putting the prime responsibility on the BOD. It establishes the risk culture and the risk management organization and incorporates the risk process as an essential part of the strategic plan of the Bank. All risk management policies and policy amendments, risk-taking limits such as but not limited to credit and trade transactions, market risk limits, counterparty limits, trader's limits and activities are based on the Bank's established approving authorities which are approved by the Bank's BOD.

b. Executive Committee
   This is a board level committee, which reviews the bank-wide credit strategy, profile and performance. It approves the credit risk-taking activities based on the Bank's established approving authorities and likewise reviews and endorses credit-granting activities. All credit proposals beyond the credit approving limit of the Loan and Investments Committee passes through this committee for final approval.

c. Asset-Liability Management Committee (ALCO)
   ALCO, a management level committee, meets on a weekly basis and is responsible for the over-all management of the Bank's market, liquidity, and statement of financial position-related risks. The ALCO's primary responsibilities include, among others, (i) ensuring that the Bank and each business unit holds sufficient liquid assets of appropriate quality and in appropriate currencies to meet short-term funding and regulatory requirements, (ii) managing statement of financial position and ensuring that business strategies are consistent with its liquidity, capital and funding strategies, (iii) establishing asset and/or liability pricing policies that are consistent with statement of financial position objectives, (iv) recommending market and liquidity risk limits to the Risk Management Committee and BOD and (v) approving the assumptions used in

contingency and funding plans.

d. Risk Management Committee (RMC)
This board level committee oversees the effectiveness of the Bank's over-all risk management strategies, practices and policies. It recommends to the BOD, as necessary, changes in strategies and amendments in policies. The RMC also evaluates the magnitude, direction and distribution of risks across the Bank and uses this as basis in the determination of risk tolerances that it subsequently recommends to the BOD for approval.

e. Loan and Investments Committee (Loan Com)
This committee is headed by the Chairman of the Bank whose primary responsibility is to oversee the Bank's credit risk-taking activities and overall adherence to the credit risk management framework. Said committee reviews business/credit risk strategies, quality and profitability of the Bank's credit portfolio and recommends changes to the credit evaluation process, credit risk acceptance criteria and the minimum and target return per credit or investment transaction. All credit risk-taking activities based on the Bank's established approving authorities are evaluated and approved by this committee.

f. Audit Committee (Audit Com)
The Audit Com assists the BOD in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Bank's process for monitoring compliance with laws and regulation and the code of conduct. It is tasked to discuss with management the Bank's major risk exposures and ensures accountability on the part of management to monitor and control such exposures including the Bank's risk assessment and risk management policies. The Committee discusses with management and the independent auditor the major issues regarding accounting principles and financial statement presentation, including any significant changes in the Bank's selection or application of accounting principles; and major issues as to the adequacy of the Bank's internal controls; and the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Bank.

g. Risk Management Division (RMD)
RMD performs an independent risk governance function within the Bank. RMD is tasked with identifying, measuring, controlling and monitoring existing and emerging risks inherent in the Bank's overall portfolio (on or off balance sheet). RMD develops and employs risk assessment tools to facilitate risk identification, analysis and measurement. It establishes risk management policies, practices and other control mechanisms to manage and control risks.

It may also develop and endorse risk tolerance limits for BOD approval, as endorsed by the RMC, and monitor compliance to approved risk tolerance limits. Finally, it regularly apprises Senior Management and the RMC on the results of its risk monitoring.

h. Internal Audit Division (IAD)
The IAD audits risk management processes throughout the Bank annually or in a cycle depending on the latest audit rating. IAD employs a risk-based audit approach that examines both the adequacy of the procedures and the Bank's compliance with the procedures. IAD discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Com. The Audit Com conducts the detailed discussion of the findings and recommendations during its regular meetings.

Credit Risk

Credit risk refers to the potential loss of Bank earnings or capital arising from an obligor/s, customer/s or counterparty's failure to perform and/or to meet the terms of any contract with the Bank. Credit risk may last for the entire tenor and set at the full amount of a transaction and in some cases may exceed the original principal exposures. The risk may arise from lending, trade financing, trading, investments and other activities undertaken by the Bank. The Bank's credit risk and loan portfolio is managed by the RMD at the product and portfolio levels. The Bank has a structured and standardized credit rating and approval process according to the borrower or business and/or product segment. For large corporate credit transactions, the Bank has a comprehensive procedure for credit evaluation, risk assessment and well-defined concentration limits, which are established for each type of borrower.

Credit Risk Mitigation

Pursuant to the BSP's regulations, the Bank is required to establish a system of identifying and monitoring existing or potential problem loans and other risk assets and of evaluating credit policies vis-à-vis prevailing circumstances and emerging portfolio trends. In compliance with this requirement, the RMD on a regular basis or as circumstances requires, establishes and maintains a system for monitoring the credit quality of individual accounts and updates the senior management of the Bank, accordingly through the classification of accounts under the Bank's overall portfolio.

A system of rating risk exposures and impairment testing of individual and portfolio accounts for both the consumer and corporate accounts are also undertaken to determine adequacy of risk mitigation strategies set by the Bank.

At present, borrowers with unquestionable repaying capacity and to whom the Bank is prepared to lend on an unsecured basis, either partially or totally, are generally rated High Grade borrowers. Standard rated borrowers normally requires tangible collateral such as real estate mortgage (REM) to either fully or partially secure the credit facilities because it indicates a relatively higher credit risk than those accounts as High Grade. For any account to be acceptable, its rating should be in the High and Standard grades. For Sub-standard grade accounts, the granting of new or additional loans/credits may be considered on a fully secured basis only and covered by readily marketable and prime collateral such as REM and non-risk assets (e.g., government securities, bank deposits).

The RMD undertakes several functions with respect to credit risk such as independent credit analysis, including the portfolio risks associated with particular industry sectors, regions, loan size and maturity, and development of a model to determine its desired portfolio mix and risk profile. It also ensures that the Bank's credit policies and procedures are adequate and constantly evolving to meet the changing demands of the business.

The RMD reviews the Bank's loan portfolio in line with the Bank's policy of not having significant concentrations of exposure to specific industries or group of borrowers. It monitors compliance to the BSP's limit on exposure to any single person or group of connected persons to an amount not exceeding 25.00% of the Bank's adjusted capital accounts.

Remedial management is jointly handled by the Corporate Banking Group (for corporate accounts), Collections Department of the respective retail lending units (for retail accounts), Legal Services Division, and Real and Other Properties Acquired Sales and Administration, under the Loan Com's oversight. All inherent elements in managing problem accounts that includes loan restructuring, collection and servicing of loan accounts encountering repayment difficulties as well as overseeing watch list accounts which are at risk due to adverse economic or business conditions, comprise the remedial measures instituted by the Bank. The Bank advocates a proactive remedial management by extending all possible assistance necessary to restructure remedial accounts before taking steps to enforce legal proceedings.

The Bank reduces credit risk by diversifying its loan portfolio across various sectors and borrowers. This is the underlying principle of portfolio diversification against loan concentration. The Bank is convinced that excessive concentration of lending in a single business sector (e.g. real estate development) or geographic area plays a significant role in weakening asset quality. It further believes that good diversification across economic sectors and geographic areas enable it to ride through business cycles without causing undue harm to its asset quality.

Credit risk exposures

An analysis of the maximum exposure to credit risk without taking into account any collateral held or other credit enhancements is shown below (amounts in thousands):

	2009	2008 (As restated)
Due from BSP	**₱6,322,227**	₱4,605,557
Due from other banks	**3,285,005**	873,186
IBLR and SPURA	**8,933,100**	6,020,000
Financial assets at FVPL		
Government securities	**1,422,736**	451,570
Private bonds	**64,366**	1,833
	1,487,102	453,403
AFS investments		
Government securities	**13,544,135**	3,890,704
Private bonds	**1,577,730**	765,343
Unquoted equity instruments	**123,220**	74,098
	15,245,085	4,730,145
HTM investments		
Government securities	**–**	3,873,934
Private bonds	**–**	1,754,313
	–	5,628,247
Loans and receivables		
Receivables from customers		
Corporate lending	**10,911,293**	6,866,395
Consumer lending	**13,874,480**	7,731,111
Residential mortgages	**3,124,810**	3,511,689
Small business lending	**3,279,998**	3,027,922
	31,190,581	21,137,117
Unquoted debt securities		
Government securities	**288,825**	9,022
Private bonds	**100,170**	101,226
	388,995	110,248
Other receivables		
Accounts receivable	**649,710**	162,568
Accrued interest receivable	**490,102**	445,612
Sales contract receivable	**136,999**	86,661
	1,276,811	694,841
	32,856,387	21,942,206
	68,128,906	44,252,744
Commitments	**8,617,979**	5,087,894
Contingent liabilities	**21,553,275**	5,033,109
	30,171,254	10,121,003
	₱98,300,160	₱54,373,747

Concentration of risk is managed by client/counterparty and by industry sector. For risk concentration monitoring purposes, the financial assets are broadly categorized into loans and receivables, loans and advances to banks and investment securities.

Limit per client or counterparty
The maximum credit exposure to any client or counterparty is about ₱1.50 billion and ₱0.90 billion as of December 31, 2009 and 2008 respectively, before taking into account any collateral held or other credit enhancements.

Concentration by industry
An industry sector analysis of the Bank's financial assets, before and after taking into account collateral held or other credit enhancements, is as follows (in thousands):

	2009			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediation	**₱1,470,640**	**₱18,540,332**	**₱16,732,187**	**₱36,743,159**
Real estate and renting & business activity	**4,836,241**	**–**	**–**	**4,836,241**
Private households w/ employed persons	**14,136,506**	**–**	**–**	**14,136,506**
Wholesale & retail trade, repair of motor vehicles	**5,802,018**	**–**	**–**	**5,802,018**
Manufacturing	**2,752,309**	**–**	**–**	**2,752,309**
Agriculture, fisheries and forestry	**402,054**	**–**	**–**	**402,054**
Transportation, storage and communication	**915,323**	**–**	**–**	**915,323**
Others	**32,712,550**	**–**	**–**	**32,712,550**
	₱63,027,641	**₱18,540,332**	**₱16,732,187**	**₱98,300,160**

*** Includes contingent liabilities and commitments**
**** Comprised of Due from BSP, Due from other banks and IBLR and SPURA.**
***** Comprised of Financial assets at FVPL, AFS investments and HTM Investments**

	2008			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediation	₱1,443,662	₱11,498,744	₱10,811,795	₱23,754,201
Real estate and renting & business activity	5,691,079	–	–	5,691,079
Private households w/ employed persons	5,413,491	–	–	5,413,491
Wholesale & retail trade, repair of motor vehicles	4,051,150	–	–	4,051,150
Manufacturing	2,627,664	–	–	2,627,664
Agriculture, fisheries and forestry	402,496	–	–	402,496
Transportation, storage and communication	164,894	–	–	164,894
Others	12,268,772	–	–	12,268,772
	₱32,063,208	₱11,498,744	₱10,811,795	₱54,373,747

* Includes contingent liabilities and commitments
** Comprised of Due from BSP, Due from other banks and IBLR and SPURA.
*** Comprised of Financial assets at FVPL, AFS investments and HTM Investments

Collateral and other credit enhancements
Premium security items are collaterals that would have the effect of reducing the estimated credit risk for a facility. The primary consideration for enhancements falling under this category is the ease of converting these enhancements into cash.

The percentage of loan value attached to each of these security items is part of the Bank's lending guidelines. These percentages take into account safety margins for foreign exchange rate exposure/fluctuation, interest rate exposure, and price volatility. Primary securities would include hold-out on deposits which are cash deposits in any form whether in Philippine currency, in USD or in other major currencies which are converted at prevailing booking rate at the time of transaction. REM includes industrial, commercial, residential and developed agricultural real properties. The secured loan value is determined using the collateral's latest appraisal report. REM is documented and registered for the full amount of approved credit accommodation. However, if the amount of loan is higher than the maximum allowable loan value, the difference must be stated in the Loan Approval Memorandum (LAM) as clean or unsecured. REM appraisal values are updated based on the latest appraisal report. These collaterals are valued according to existing credit policy standards.

Another form of collateral is the Standby Letter of Credit or bank guarantee. These are bank guarantees issued by reputable banks in favor of the Bank to support their credit facility. Receivables from highly reputable rated companies covered by direct assignment of receivables to the Bank, including direct flow of receivables' proceeds to the Bank are likewise acceptable collaterals/securities.

Financial securities includes blue chip stocks and bonds includes shares of stock and bonds of corporations with proven profit and cash dividend record and whose securities are actively being traded in the Philippine Stock Exchange (PSE). Secured loan value shall be determined per Bank's approved credit policies. The stocks shall be marked to market using average closing rate at the end of trading for the last working day of each week. A 100 points drop in the PSE stock index for 3 consecutive trading days will trigger an immediate revaluation of stocks held.

Government securities includes all securities issued by or fully guaranteed by the National Government (NG) and/or the BSP, but excluding those securities issued by provincial or city governments and agencies or corporations owned by the government. These collaterals are valued lower than the prevailing market price taking into account safety margins. The collateral manager monitors the movement of market prices on a daily basis and recommends triggers. The drop in share prices should not be equal or be more than the percentage of safety margin previously considered. In case of security deterioration, client shall be required additional security/collateral.

The Bank is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. It is the Bank's policy to dispose assets acquired in an orderly fashion. The proceeds of the sale of the foreclosed assets, included under 'Investment properties', are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

As part of the Bank's risk control on security/collateral documentation, standard documents are made for each security type and deviation from the pro-forma documents are subject to Legal Services Division's approval prior to acceptance.

Credit Risk Assessment Tools

As a standard and systematic way of determining credit quality, the Bank uses credit scoring or behavioral scoring for consumer accounts and internal credit risk rating for corporate accounts.

The Bank's credit scoring system focuses on the characteristics of a particular set of borrowers with similar risk profiles, product needs and behavior. Credit risk is specific to the identified target set of customers and follows pre-determined risk acceptance criteria for evaluation and approval. The business line credit program has a well-defined limit and credit authority structure and is subject to standard terms and conditions. The Bank is implementing a Loans Origination System (LOS) to better manage its credit risk. Completion is expected in the third quarter of 2010.

Internal Credit Risk Rating System

The Bank employs a credit scoring system for corporate loan exposures of borrowers with asset size of at least ₱15.00 million to assess risks relating to the borrower and the loan exposure. Borrower risk is evaluated by considering (i) quantitative factors under financial condition and (ii) qualitative factors, such as management quality and industry outlook.

Financial condition assessment focuses on profitability, liquidity, capital adequacy, sales growth, production efficiency and leverage. Management quality determination is based on the Bank's strategies, management competence and skills and management of banking relationship. On the other hand, industry prospect is evaluated based on its importance to the economy, growth, industry structure and relevant government policies.

Based on these factors, each borrower is assigned a Borrower Risk Rating (BRR), a 10-scale scoring system that ranges from 1 to 10. In addition to the BRR, the Bank assigns a Facility Risk Rating (FRR) to determine the risk of the prospective (or existing) exposure with respect to each credit facility that it applied for (or under which the exposure is accommodated). The FRR focuses on the quality and quantity of the collateral applicable to the underlying facility, independent of borrower quality. Consideration is given to the availability and amount of any collateral and the degree of control, which the lender has over the collateral. FRR applies both to balance sheet facilities and contingent liabilities. One FRR is determined for each individual facility taking into account the different security arrangements or risk influencing factors to allow a more precise presentation of risk. A borrower with multiple facilities will have one BRR and multiple FRRs. The combination of the BRR and the FRR results to the Adjusted Borrower Risk Rating.

The Bank determines the credit risk spread over its costs of funding based on the expected average loan loss write-offs and the accompanying cost of carrying such losses for each type of borrower. In addition to the credit risk spread, a desired net spread, which is determined by the ALCO, is added to the cost of funding to arrive at the risk-adjusted price of its loans.

The credit rating for each borrower is reviewed annually except when the borrower has a higher risk profile or when there are extraordinary or adverse developments affecting the borrower, the industry and/or the Philippine economy, more than an annual review is being done.

The following is a brief explanation of the Bank's risk rating:

Risk rating class 1 - This category will apply to a borrower with a very low probability of going into default in the coming year. The borrower has a high degree of stability, substance and diversity. These borrowers are of the highest quality under virtually all-economic conditions.

Risk rating class 2 - This category applies to borrowers with a low probability of going into default in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. These borrowers are quality multinational or local corporations, which are well capitalized.

Risk rating class 3 - This category covers the smaller corporations with limited access to public capital markets or access to alternative financial markets. This access is however limited to favorable economic and/or market conditions. The borrower has reported profits for the past 3 fiscal years and is expected to be profitable again in the current year.

Risk rating class 4 - This category is for those borrowers where clear risk elements exist and the probability of default is somewhat greater. Borrowers in this category normally have limited access to public financial markets. Borrowers should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels.

Risk rating class 5 - The risk elements for the Bank are sufficiently pronounced, although borrowers should still be able to withstand normal business cycles. Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

Risk rating class 6 - Borrowers for which unfavorable industry or company-specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of finance. The borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility. Generally, borrowers that incur net losses for two or more consecutive years fall under this rating.

Risk rating class 7 - In this category borrowers are characterized by some probability of default, manifested by some or all of the following:

- Evidence of weakness in the borrowers' financial conditions or credit worthiness;
- Unacceptable risk is generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned;
- This will apply to any borrower that has reached a point where there is a real risk that the borrower's ability to pay the interests and repay the principal timely could be jeopardized; and
- The client is expected to have financial difficulties and exposure may be at risk.

Risk rating class 8 - This category shall apply to borrowers where one or more of the following factors apply:

- The collection of principal or interests becomes questionable regardless of scheduled payment date, by reason of adverse developments of a financial, or by important weaknesses in cover. The probability of default is assessed at up to 50.00%;
- Substandard loans or portions thereof, which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics; and
- There exists in such loans the possibility of future loss to the Bank unless given closer supervision.

Risk rating class 9 - This represents those credits where one or more of the following factors apply:

- All borrowers with "non-performing loan" (NPL) status;
- Any portion of any interest and/or principal payment is in arrears for more than 90 days; and
- The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful.

Risk rating class 10 - Represents those credits where the prospect for re-establishment of creditworthiness and debt service is remote. This category also applies where the lender shall take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation although partial recovery may be obtained in the future. These are loans or portions thereof which are considered uncollectible or worthless and of such little value that the continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates a focused management of the applicable risk and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Credit quality per class of financial assets
The table below shows credit quality per class of financial assets that are neither past due nor impaired (gross of allowance for credit losses):

For accounts such as due from BSP, due from other Banks, financial assets at FVPL, AFS investments and HTM investments, the external ratings based on Standard & Poor's and Fitch were used to rate the accounts.

	2009			
	AA/A	**BB/B**	**Unrated**	**Total**
Due from BSP	**₱–**	**₱–**	**₱6,349,243**	**₱6,349,243**
Due from other banks	**2,148,464**	**1,132,691**	**3,850**	**3,285,005**
IBLR and SPURA	**–**	**–**	**8,933,100**	**8,933,100**
Financial assets at FVPL				
Government securities	**–**	**1,422,736**	**–**	**1,422,736**
Private bonds	**5,262**	**59,104**	**–**	**64,366**
	5,262	**1,481,840**	**–**	**1,487,102**
AFS investments				
Government securities	**49,333**	**13,494,802**	**–**	**13,544,135**
Private bonds	**456,106**	**187,960**	**933,664**	**1,577,730**
Unquoted equity investments	**–**	**–**	**174,831**	**174,831**
	505,439	**13,682,762**	**1,108,495**	**15,296,696**
	₱2,659,165	**₱16,297,293**	**₱16,394,688**	**₱35,351,146**

	2008			
	AA/A	BB/B	Unrated	Total
Due from BSP	₱–	₱–	₱3,535,461	₱3,535,461
Due from other banks	277,248	112,498	149,716	539,462
IBLR and SPURA	–	–	6,020,000	6,020,000
Financial assets at FVPL				
Government securities	–	119,249	332,321	451,570
Private bonds	–	–	1,833	1,833
	–	119,249	334,154	453,403
AFS investments				
Government securities	–	1,956,222	1,934,482	3,890,704
Private bonds	–	–	563,287	563,287
Unquoted equity investments	–	–	14,122	14,122
		1,956,222	2,511,891	4,468,113
HTM investments				
Government bonds	–	2,281,168	1,592,766	3,873,934
Private bonds	95,612	1,181,376	477,325	1,754,313
	95,612	3,462,544	2,070,091	5,628,247
	₱372,860	₱5,650,513	₱14,621,313	₱20,644,686

The credit quality of loans and receivables is managed by the Bank using internal credit ratings. The tables below show the credit quality by class of asset for investments and loan-related balance sheet lines, based on the Bank's credit rating system.

	2009				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers					
Corporate lending	**₱4,140,128**	**₱8,758,872**	**₱2,240**	**₱333,376**	**₱13,234,616**
Consumer lending	**302,596**	**9,662,180**	**7,926,508**	**–**	**17,891,284**
Residential mortgages	**–**	**–**	**–**	**–**	**–**
Small business lending	**–**	**–**	**–**	**–**	**–**
	4,442,724	**18,421,052**	**7,928,748**	**333,376**	**31,125,900**
Unquoted debt securities	**–**	**–**	**–**	**531,010**	**531,010**
Accounts receivable	**–**	**–**	**–**	**889,621**	**889,621**
Accrued interest receivable	**–**	**–**	**–**	**489,191**	**489,191**
Sales contract receivable	**–**	**–**	**–**	**137,961**	**137,961**
	–	**–**	**–**	**2,047,783**	**2,047,783**
	₱4,442,724	**₱18,421,052**	**₱7,928,748**	**₱2,381,159**	**₱33,173,683**

	2008				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers					
Corporate lending	₱5,432,511	₱1,246,827	₱–	₱831,857	₱7,511,195
Consumer lending	434,950	2,558,808	4,844,034	–	7,837,792
Residential mortgages	–	2,998,674	–	–	2,998,674
Small business lending	–	2,960,275	–	41,677	3,001,952
	5,867,461	9,764,584	4,844,034	873,534	21,349,613
Unquoted debt securities	–	–	–	114,372	114,372
Accounts receivable	–	–	–	127,502	127,502
Accrued interest receivable	–	–	–	445,612	445,612
Sales contract receivable	–	–	–	87,623	87,623
	–	–	–	775,109	775,109
	₱5,867,461	₱9,764,584	₱4,844,034	₱1,648,643	₱22,124,722

The table below shows the aging analysis of the past due but not impaired loans and receivables per class that the Bank held. Under PFRS 7, a financial asset is past due when a counterparty has failed to make payments when contractually due.

	2009					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
Loans and receivables						
Corporate lending	**₱75,046**	**₱–**	**₱2,000**	**₱2,027**	**₱101,355**	**₱180,428**
Consumer lending	**–**	**–**	**–**	**–**	**–**	**–**
Residential mortgages	**19,424**	**7,339**	**78,284**	**40,587**	**181,622**	**327,256**
	₱94,470	**₱7,339**	**₱80,284**	**₱42,614**	**₱282,977**	**₱507,684**

	2008					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
Loans and receivables						
Corporate lending	₱4,378	₱–	₱–	₱4,745	₱17,192	₱26,315
Consumer lending	420,609	152,603	127,275	–	–	700,487
Residential mortgages	18,401	14,436	94,908	–	–	127,745
	₱443,388	₱167,039	₱222,183	₱4,745	₱17,192	₱854,547

Collaterals of past due but not impaired loans mostly consist of REM of industrial, commercial, residential and developed agricultural real estate properties.

Carrying amount per class of financial assets whose terms have been renegotiated
The table below shows the carrying amount for renegotiated financial assets by class (amounts in thousands).

	2009	2008
Receivables from customers:		
Corporate lending	**₱388,839**	₱360,235
Residential mortgages	**388,798**	115,244
Consumer lending	**97,497**	89,028
	₱875,134	₱564,507

Impairment Assessment
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: specific or individually assessed allowances and collectively assessed allowances.

a. Specific Impairment Testing
Specific impairment testing is the process wherein classified accounts are individually subject to impairment testing. Classified accounts are past due accounts and accounts whose credit standing and/or collateral has weakened due to varying circumstances. This present status of the account may adversely affect the collection of both principal and interest payments.

Indicators of impairment testing are past due accounts, decline in credit rating from independent rating agencies and recurring net losses.

The net recoverable amount is computed using the present value approach. The discount rate used for loans with fixed and floating interest rate is the original effective interest rate and last repriced interest rate, respectively. Net recoverable amount is the total cash inflows to be collected over the entire term of the loan or the expected proceeds from the sale of collateral. Specific impairment testing parameters include the account information (original and outstanding loan amount), interest rate (nominal and historical effective) and the business plan. Also included are the expected date of recovery, expected cash flows, probability of collection, and the carrying value of loan and net recoverable amount.

The Bank conducts specific impairment testing on all past due Corporate Banking Group accounts, such as corporate and commercial loan accounts.

b. Collective Impairment Testing
All other accounts which were assessed to be not individually impaired are grouped based on similar credit characteristics and are collectively assessed for impairment under the Collective Impairment Testing. This is also in accordance with PAS 39 which provides that all loan accounts not included in the specific impairment test shall be subjected to collective testing.

Collective impairment testing of corporate accounts
Corporate Accounts, which are unclassified and with current status are grouped in accordance to industry and collateral (whether secured or unsecured). Impairment loss is derived by multiplying the outstanding loan balance on a per industry and security level against a "factor rate." The factor rate, which estimates the expected loss from the credit exposure, is the product of the Default Rate (DR) and the Loss Given Default Rate (LGDR). DR is estimated based on the 3-year historical average default experience by industry exposure of the Bank, while, LGDR is estimated based on loss experience (net of recoveries from collateral) for the same reference period.

Collective impairment testing of consumer accounts
Consumer accounts, both in current and past due status are collectively tested for impairment as required under PAS 39. Accounts are grouped by type of product - salary loans, housing loans, auto loans and credit cards.

Similar to the corporate accounts, consumer accounts adopts the basic model of estimating expected loss given an exposure by taking the product of DR and LGDR. Being retail in nature, the DR is estimated based on the collective default experience of the portfolio by product. This is derived using the flow-rate model where a 6-month horizon is assumed to be the end of the default cycle. LGDR, on the other hand, is estimated at 100.00% less recoveries, where recoveries are estimated based on collection experience, i.e. payments and/or estimated proceeds from sale of collateral (if secured), after the 6-month default cycle. Historical experience considered ranges from a minimum of 6-month to 3-year cycle depending on data availability.

Liquidity Risk and Funding Management
Liquidity risk is the risk that sufficient funds are unavailable to adequately meet all maturing liabilities, including demand deposits and off-balance sheet commitments.

To ensure that the Bank has sufficient liquidity at all times, the ALCO and the Treasurer formulate a contingency plan upon consolidation and approval of business strategies of each business unit.

The contingency plan sets out the amount and the sources of funds (such as unused credit facilities) that are available to the Bank and the circumstances under which such funds will be used. The Treasurer periodically performs simulated stress tests that evaluate the Bank's ability to withstand a prolonged liquidity problem. Under a stress test, the potential cash flows resulting from, among other things, a potential early termination of financial instruments and a potential increase in withdrawals of deposits. Such potential cash outflows are then compared to the amount of funds that are available to determine the liquidity status of the Bank and of each business unit during a liquidity crisis. In performing such stress test, the Treasurer assumes certain customer and market behavior under adverse market conditions and circumstances under which reputation is tarnished. The Treasurer also determines the amount of committed credit lines that should be available to the Bank during a liquidity crisis.

The Bank also manages its short-term liquidity risks through the use of a Maximum Cumulative Outflow (MCO) limit, which limits the outflow of cash on a cumulative basis and on a tenor basis. The MCO limit is endorsed by the RMC and approved by the BOD. The Bank takes a multi-tiered approach to maintaining liquid assets. The Bank's principal source of liquidity is comprised of COCI, due from BSP, due from other banks and IBLR and SPURA with maturities of less than one year. In addition to regulatory reserves, the Bank maintains a sufficient level of secondary reserves in the form of liquid assets such as short-term trading and investment securities that can be realized quickly.

Analysis of financial assets and liabilities by remaining contractual maturities
The table below shows the maturity profile of the Bank's financial assets and liabilities, based on its internal methodology that manages liquidity based on contractual undiscounted cash flows (amounts in millions):

	2009						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 Year	Total
Financial Assets							
Cash and other cash items*	₱7,497	₱10,212	₱2,919	₱–	₱–	₱–	₱20,628
Investments and trading securities**	–	3,771	4,863	1,984	78	6,498	17,194
Loans and receivables	–	10,193	3,607	2,364	1,392	15,521	33,077
	₱7,497	₱24,176	₱11,389	₱4,348	₱1,470	₱22,019	₱70,899

	2009						
	On demand	**Up to 1 month**	**>1 to 3 months**	**>3 to 6 months**	**>6 to 12 months**	**Beyond 1 Year**	**Total**
Financial Liabilities							
Deposit liabilities	**₱15,091**	**₱20,594**	**₱8,448**	**₱2,878**	**₱1,394**	**₱11,805**	**₱60,210**
Bills and acceptances payable	**–**	**821**	**323**	**346**	**481**	**–**	**1,971**
Cashier's checks and demand draft payable	**822**	**–**	**–**	**–**	**–**	**–**	**822**
Subordinated debt	**–**	**–**	**–**	**–**	**–**	**1,250**	**1,250**
Other liabilities***	**–**	**3,096**	**–**	**–**	**–**	**–**	**3,096**
Contingent liabilities	**–**	**229**	**370**	**17**	**27**	**–**	**643**
	₱15,913	**₱24,740**	**₱9,141**	**₱3,241**	**₱1,902**	**₱13,055**	**₱67,992**

* Consist of cash and cash other items, due from BSP, due from other banks and interbank loans receivable

** Consist of financial assets at FVPL and AFS investments

	2008						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 Year	Total
Financial Assets							
Cash and other cash items	₱4,026	₱7,818	₱1,553	₱–	₱–	₱–	₱13,397
Investments and trading securities	–	1,613	2,346	947	–	5,641	10,547
Loans and receivables	–	8,416	2,914	1,763	1,156	8,626	22,875
	₱4,026	₱17,847	₱6,813	₱2,710	₱1,156	₱14,267	₱46,819
Financial Liabilities							
Deposit liabilities	₱13,085	₱12,199	₱3,702	₱907	₱739	₱8,714	₱39,346
Bills and acceptances payable	–	2,366	–	–	–	23	2,389
Cashier's checks and demand draft payable	176	–	–	–	–	–	176
Subordinated debt	–	–	–	–	–	1,250	1,250
Contingent liabilities	100	834	1,117	434	–	–	2,485
	₱13,361	₱15,399	₱4,819	₱1,341	₱739	₱9,987	₱45,646

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank treats exposures to market risk as either trading portfolio or balance sheet exposure. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Balance sheet exposures are managed and monitored using sensitivity analyses.

Market Risk in the Trading Books

The Board has set limits on the level of risk that may be accepted. Price risk limits are applied at the business unit level and approved by the BOD based on, among other things, a business unit's capacity to manage price risks, the size and distribution of the aggregate exposure to price risks and the expected return relative to price risks.

Treasury, in coordination with the RMD, develops product manuals to be approved by the Board, which set out, among other things, a process of measuring and managing price and liquidity risks, operational procedures and controls and approval procedures.

The Bank manages its price risks through application of various limits approved by the BOD. Such limits include the Market Risk Limit, which places a ceiling on the loss exposure based on the prevailing trading outcomes and Value at Risk (VaR) calculations. Nominal Position Limits determine the maximum size of open risk positions that may be held by the Bank within a given time period. Such limits include overnight and daylight position limits, which may vary for overbought and oversold positions. Trader/Dealer Limits set the maximum volume of transactions that a trader/dealer may execute and is determined relative to the depth of experience and level of expertise of the personnel making the risk-bearing decision

The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions on market conditions. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses a parametric VaR model from Bloomberg for interest rate risk.

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

In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR model, actual outcomes are monitored through back testing to test the accuracy of the VaR model.

Stress testing, provides a means of complementing VaR by simulating the potential loss impact on market risk positions from extreme market conditions, such as 100 bps increase in interest rates.

VaR assumptions
The VaR that the Bank measures is an estimate, using a confidence level of 99.00% of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for 3 days. The use of a 99.00% confidence level means that within a one-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

VaR is an integral part of the Bank's market risk management and encompasses trading positions held for trading and AFS investments. VaR exposures form part of the market risk monitoring which is reviewed daily against the limit by management. If the Market Risk Limit is exceeded, such occurrence is promptly reported to senior management.

The VaR below pertains to interest rate risk of trading books.

	2009	2008
Year-end VaR	**₱213,515,126**	₱28,978,185
Average VaR	**220,333,793**	111,380,439
Highest VaR	**372,659,357**	256,329,040
Lowest VaR	**21,765,095**	10,500,435

VaR based on the parametric approach is limited by the assumptions made in the calculations and the current exposures of the Bank as inputted in the VaR model at the time it is computed. It will not be able to account for losses in abnormal or extreme market conditions. Stress testing provides a means of complementing VaR by simulating the potential loss impact from these simulated extreme market conditions.

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

The Bank's foreign currency risk originates from its holdings of foreign currency denominated assets and liabilities.

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU. 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 FCDU. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDU.

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 financial institutions engaged in the type of businesses in which the Bank is engaged.

Total foreign exchange (FX) currency position is monitored through the daily BSP FX position reports, which are subject to the overbought and oversold limits set by the BSP at 20.00% of unimpaired capital or USD50 million, whichever is lower.

Internal limit regarding the end-of-day trading positions in FX, which take into account the trading desk and the branch FX transactions, are also monitored.

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2009 and 2008 (amounts in USD):

	2009		
	USD	**Other currencies**	**Total**
Assets			
Gross FX assets	**$422,802,005**	**$1,845,959**	**$424,647,964**
Contingent FX assets	**200,278,061**		**200,278,061**
	623,080,066	**1,845,959**	**624,926,025**
Liabilities			
Gross FX liabilities	**385,854,992**	**257,612**	**386,112,604**
Contingent FX liabilities	**242,632,105**		**242,632,105**
	628,487,097	**257,612**	**628,744,709**
Net exposure	**($5,407,031)**	**$1,588,347**	**($3,818,684)**

	2008		
	USD	Other currencies	Total
Assets			
Gross FX assets	$234,601,500	$1,205,005	$235,806,505
Contingent FX assets	62,654,646		62,654,646
	297,256,146	1,205,005	298,461,151
Liabilities			
Gross FX liabilities	$210,655,268	$18,667	$210,673,935
Contingent FX liabilities	88,346,403	416,490	88,762,893
	299,001,671	435,157	299,436,828
Net exposure	($1,745,525)	$769,848	($975,677)

The table below indicates the currencies to which the Bank had significant exposure as of December 31, 2009 and 2008. The analysis calculates the effect of a reasonably possible movement of the currency rate against Peso, with all other variables held constant on the statement of income.

A negative amount in the table reflects a potential net reduction in statement of income while a positive amount reflects net potential increase. There is no other impact on the Bank's equity other than those already affecting the statements of income.

	2009			
Foreign currency appreciates (depreciates)	**USD**	**GBP**	**EUR**	**JPY**
+ 10.00%	**(25.224)**	**1.548**	**2.423**	**2.433**
- 10.00%	**25.224**	**(1.548)**	**(2.423)**	**(2.433)**

	2008			
Foreign currency appreciates (depreciates)	USD	GBP	EUR	JPY
+ 10.00%	(8.318)	0.829	2.357	0.392
- 10.00%	8.318	(0.829)	(2.357)	(0.392)

Market Risk in the Non-Trading Books

Interest rate risk

A critical element of risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Bank's net interest income. The short-term nature of the business of its assets and liabilities reduces the exposure of its net interest income to such risks.

The Bank employs "Gap Analysis" to measure the interest rate sensitivity of its assets and liabilities. The asset/liability gap analysis measures, for any given period, any mismatches between the amounts of interest-earning assets and interest-bearing liabilities that would mature, or reprice, during that period. The repricing gap is calculated by first distributing the assets and liabilities contained in the Bank's statement of financial position into tenor buckets according to the time remaining to the next repricing date (or the time remaining to maturity if there is no repricing), and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and repricing (interest rate sensitive) liabilities. If there is a positive gap, there is asset sensitivity which generally means that an increase in interest rates would have a positive effect on the Bank's net interest income. If there is a negative gap, this generally means that an increase in interest rates would have a negative effect on net interest income.

The following table provides for the average effective interest rates by period of repricing (or by period of maturity if there is no repricing) of the Bank as of December 31, 2009 and 2008:

	2009				
	Up to 1 month	**>1 month to 3 months**	**>3 months to 6 months**	**>6 months to 12 months**	**>12 months**
Peso					
Financial assets					
Due from BSP	**3.25%**	**3.21%**	--	--	--
Due from other banks	**1.86%**				
Investment securities		**6.13%**	**5.35%**	**4.68%**	**7.06%**
Loans and receivables	**7.77%**	**8.96%**	**8.92%**	**10.54%**	**12.19%**
Financial liabilities					
Deposit liabilities	**3.75%**	**3.95%**	**5.25%**	**4.71%**	**5.96%**
Bills payable	**3.93%**	**3.52%**	**3.50%**	**3.50%**	**3.50%**
USD					
Financial assets					
Due from other banks	**0.17%**	--	--	--	--
Investment securities	--	**5.77%**	--	--	**6.20%**
Loans and receivables	**5.61%**	**5.90%**	**8.94%**	**7.33%**	--
Financial liabilities					
Deposit liabilities	**2.18%**	**2.31%**	**1.81%**	**2.91%**	**1.88%**

	2008				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
Peso					
Financial assets					
Due from BSP	5.34%	4.99%	–	–	–
Due from other banks	0.21%	–	–	–	–
Investment securities					7.16%
Loans and receivables	15.10%	15.41%	15.09%	15.82%	15.57%
Financial liabilities					
Deposit liabilities	3.30%	3.31%	3.45%	3.57%	5.01%
Bills payable	3.30%	–	–	–	–
USD					
Financial assets					
Due from other banks	0.41%	–	–	–	–
Investment securities	–	--	–	–	5.59%
Loans and receivables	2.36%	7.82%	3.00%	2.42%	–
Financial liabilities					–
Deposit liabilities	2.35%	2.58%	2.85%	2.85%	2.85%

The following table sets forth the asset-liability gap position of the Bank as of December 31, 2009 and 2008 (amounts in millions):

	2009						
	Up to 1 month	**> 1 to 3 months**	**> 3 to 6 months**	**>6 to 12 months**	**>12 months**	**Non repricing**	**Total**
Financial assets							
Cash and cash equivalents	**₱10,200**	**₱2,919**	**₱–**	**₱–**	**₱–**	**₱7,508**	**₱20,627**
Loans and receivables	**8,591**	**2,608**	**1,344**	**3,030**	**7,443**	**5,992**	**29,008**
Investments		**125**	**55**	**78**	**5,633**	**10,561**	**16,452**
Total financial assets	**18,791**	**5,652**	**1,399**	**3,108**	**13,076**	**24,061**	**66,087**
Financial liabilities							
Deposit liabilities	**19,173**	**7,594**	**2,210**	**1,312**	**6,266**	**23,117**	**59,672**
Bills and acceptances payable	**821**	**323**	**346**	**481**	**–**	**–**	**1,971**
Total financial liabilities	**19,994**	**7,917**	**2,556**	**1,793**	**6,266**	**23,117**	**61,643**
Asset-liability gap	**(₱1,203)**	**(₱2,265)**	**(₱1,157)**	**₱1,315**	**₱6,810**	**₱944**	**₱4,444**

	2008						
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Non repricing	Total
Financial assets							
Cash and cash equivalents	₱7,818	₱1,553	₱–	₱–	₱–	₱3,618	₱12,989
Loans and receivables	8,416	2,914	1,763	1,156	8,626	1,373	24,248
Investments	–	–	–	–	5,641	4,906	10,547
Total financial assets	16,234	4,467	1,763	1,156	14,267	9,897	47,784
Financial liabilities							
Deposit liabilities	10,250	2,965	338	739	8,653	16,401	39,346
Bills and acceptances payable	2,386	–	–	–	–	–	2,386
Total financial liabilities	12,636	2,965	338	739	8,653	16,401	41,732
Asset-liability gap	₱3,598	₱1,502	₱1,425	₱417	₱5,614	(₱6,504)	₱6,052

The Bank also monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income. This is done by modeling the impact to the Bank's interest income and interest expenses of different parallel changes in the interest rate curve, assuming the parallel change only occurs once and the interest rate curve after the parallel change does not change again for the next twelve months.

The following table sets forth, for the period indicated, the impact of changes in interest rates on the Bank's non-trading net interest income before tax (amounts in millions):

Change in basis points	**2009**	2008
+100bps	**₱34.357**	₱56.938
- 100bps	**(34.357)**	(56.938)

There is no other impact on the Bank's equity other than those affecting the statements of income.

5. Fair Value Measurement

The table below presents a comparison by category of carrying amounts and estimated fair values of all of the Bank's financial instruments as of December 31, 2009 and 2008 (amounts in thousands):

	2009		2008	
	Carrying Value	**Fair Value**	Fair Value	Fair Value
Financial assets				
Loans and receivables				
COCI	**₱1,605,787**	**₱1,605,787**	₱1,756,510	₱1,756,510
Due from BSP	**6,322,227**	**6,322,227**	4,605,557	4,605,557
Due from other banks	**3,285,005**	**3,285,005**	873,186	873,186
IBLR and SPURA	**8,933,100**	**8,933,100**	6,020,000	6,020,000
Loans and receivables				
Receivables from customers				
Corporate lending	**10,911,293**	**10,724,178**	6,866,395	6,863,688
Consumer lending	**13,874,480**	**13,032,705**	7,731,111	7,718,914
Residential mortgages	**3,124,810**	**2,879,759**	3,511,689	3,494,766
Small business lending	**3,279,998**	**3,084,351**	3,027,922	3,026,360
Unquoted debt securities	**505,410**	**505,410**	110,248	110,248
Others	**1,160,396**	**1,160,396**	694,841	694,841
	32,856,387	**31,386,799**	21,942,206	21,908,817
	53,002,506	**51,532,918**	35,197,459	35,164,070
Financial assets at FVPL				
Government securities	**1,422,736**	**1,422,736**	451,570	451,570
Private bonds	**64,366**	**64,366**	1,833	1,833
	1,487,102	**1,487,102**	453,403	453,403
AFS investments				
Government securities	**13,544,135**	**13,544,135**	3,890,704	3,890,704
Private bonds	**1,577,730**	**1,577,730**	765,343	765,343
Unquoted equity instruments	**123,220**	**123,220**	74,098	74,098
	15,245,085	**15,245,085**	4,730,145	4,730,145
HTM investments				
Government securities	**–**	**–**	3,873,934	3,672,729
Private bonds	**–**	**–**	1,754,313	1,485,554
	–	**–**	5,628,247	5,158,283
	₱69,734,693	**₱68,265,105**	₱46,009,254	₱45,505,901
Financial Liabilities				
Deposit liabilities				
Demand	**14,765,014**	**14,765,014**	10,419,786	10,419,786
Savings	**8,352,260**	**8,352,260**	5,981,290	5,981,290
Time	**34,955,516**	**35,196,566**	22,945,740	22,925,035
LTNCD	**1,712,056**	**1,746,009**	–	–
	59,784,846	**60,059,849**	39,346,816	39,326,111
Bills and acceptances payable	**1,957,637**	**1,957,637**	2,385,717	2,385,717
Accrued interest payable	**197,482**	**197,482**	203,896	203,896
Cashier's checks and demand draft payable	**822,254**	**822,254**	176,111	176,111
Subordinated debt	**1,250,000**	**1,256,994**	1,250,000	1,257,610
Other liabilities	**1,773,391**	**1,773,391**	1,242,970	1,242,970
	₱65,785,610	**₱66,067,607**	₱44,605,510	₱44,592,415

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

Cash and other cash items, due from other banks, IBLR and SPURA - The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits and floating rate placements.

Debt securities - Fair values are generally based upon 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.

Unquoted equity securities - Unquoted equity securities for which no reliable basis of fair value measurement is available, are allowed under PAS 39 to be carried at cost less impairment loss, if any.

Loans and receivables - 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.

Liabilities - The fair values of liabilities approximate their carrying amounts due either to the demand nature or the relatively short-term maturities of these liabilities except for time deposit liabilities, LTNCD and subordinated debt whose fair value are estimated using the discounted cash flow methodology using the Bank's incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Fair Value Hierarchy

The Bank uses the following hierarchy for determining the fair value of financial instruments:

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

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

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

The Bank recognized financial instruments such as financial assets at FVPL, AFS investments and derivative liability on forward swaps. Financial assets at FVPL and AFS investments included within the Level 1 hierarchy amounted to ₱1.49 billion and ₱15.25 billion, respectively while derivative liabilities included in Level 2 amounted to ₱42.99 million.

Derivative Financial Instruments

The Bank's freestanding derivative financial instruments are transactions not designated as hedges. The table below sets out information about the Bank's derivative financial instruments and the related marked-to-market loss on freestanding currency forwards.

	2009	2008
Notional amount	**$51,890,877**	$23,076,087
Derivative liability	**₱42,990,327**	₱2,146,990

The net movements in fair value changes of all derivative instruments are as follows (in thousands):

	2009	2008
Net derivative liability at beginning of year	**₱2,147**	₱5,878
Net changes in fair value of derivatives	**42,678**	(1,807)
Fair value of settled instruments	**(1,835)**	(1,924)
Net derivative liability at end of year	**₱42,990**	₱2,147

The derivative liability as of December 31, 2009 and 2008 are recorded under miscellaneous liabilities.

6. Business Combination

Merger with AIGPASB, PAFLI and PFLHI.

On January 23, 2009, the Bank and American International Group, Inc. (AIG) and certain AIG subsidiaries, including The Philippine American Life and General Insurance Company and AIG Consumer Finance Group, entered into a Share Sale Agreement for the Bank to acquire all of the shares of AIGPASB, PAFLI and PFLHI (collectively referred to as 'AIGPASB Group').

On March 12, 2009, a Deed of Absolute Sale of Shares was executed between the Bank and each respective Seller. As of this date, the Bank effectively obtained control of AIGPASB, PAFLI and PFLHI, thus, was determined to be the acquisition date.

The fair values of the identifiable assets and liabilities acquired at the date of acquisition are as follows:

	Fair value recognized on acquisition	Carrying value
Assets		
COCI	**₱48,639,226**	₱48,639,226
Due from BSP	**502,355,943**	502,355,943
Due from other banks	**783,138,788**	783,138,788
Interbank loans receivable and SPURA	**895,000,000**	895,000,000
AFS investments	**46,247,503**	46,247,503
HTM investments	**561,408,090**	548,304,025
Loans and receivables	**8,046,460,855**	8,046,625,205
Property and equipment	**41,576,305**	41,576,305
Investment properties	**18,345,403**	18,345,403
Deferred tax assets	**238,811,627**	264,040,668
Intangible assets (other than goodwill)	**195,058,698**	–
Other assets	**79,459,455**	133,763,608
	₱11,456,501,893	₱11,328,036,674
Liabilities		
Deposit liabilities	**₱8,702,713,325**	₱8,554,922,755
Bills payable	**800,000,000**	800,000,000
Manager's checks	**95,692,413**	95,692,413
Accrued taxes, interest and other expenses	**134,271,662**	136,638,710
Other liabilities	**274,265,735**	274,265,735
	₱10,006,943,135	₱9,861,519,613

The acquisition resulted in goodwill determined as follows:

Total cost of acquisition	₱2,218,601,130
Less: Fair value of net assets acquired	1,449,558,758
Goodwill	₱769,042,372

Cash flow on acquisition follows:

Cash and cash equivalents	₱2,229,133,957
Cash paid	2,172,003,966
Net cash inflow	₱57,129,991

Other costs incurred from the acquisition such as legal, audit and other professional fees which were capitalized by the Bank amounted to ₱46.60 million.

On March 27, 2009, the Plan of Merger was made and executed among the Bank, AIGPASB, PAFLI and PFLHI (collectively referred to as the "Constituent Companies"). Considering that AIGPASB, PAFLI and PFLHI are wholly-owned subsidiaries of the Bank, their respective BOD and stockholders deemed it necessary and advisable to merge the Constituent Companies into one. The Bank, being the parent company, remained as the surviving corporation in order that branding leverage and greater efficiency, consolidation and economy in the management and operations of all the Constituent Companies may be achieved to their and their stockholders' advantage and welfare. The Constituent Companies have agreed that their respective net worth as of March 12, 2009 shall be the basis for the purpose of the Merger.

On March 31, 2009, the Bank, AIGPASB, PAFLI and PFLHI signed and executed the Articles of Merger.

The merger was approved by the BSP and the SEC on August 6, 2009 and September 3, 2009, respectively.

If the combination had taken place at the beginning of the year, the Bank's total operating income would have increased by ₱334.26 million while the Bank's net income before tax would have increased by ₱2.52 million.

Merger with Ecology Savings Bank Inc. (ESBI)
In 2003, the Bank merged with ESBI. The Bank, as the surviving corporation, purchased all the outstanding capital stock of ESBI from EBC Strategic Holdings Corp in exchange for cash amounting to ₱172.80 million. Consequently, as set forth in the Articles of Merger dated January 31, 2003, all rights, business, assets and liabilities of ESBI were conveyed, assigned and transferred to the Bank. The merger was approved by the BSP and the SEC on August 6, 2003 and June 26, 2003, respectively. The merger resulted in goodwill amounting to ₱172.80 million.

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	2009	2008
Securities purchased under resale agreements	**₱6,600,000,000**	₱6,020,000,000
Interbank loans receivable	**2,333,100,000**	–
	₱8,933,100,000	₱6,020,000,000

8. Trading and Investment Securities

This account consists of:

	2009	2008
Financial assets at FVPL	₱1,487,101,550	₱453,403,460
AFS investments	15,245,085,100	4,730,144,767
HTM investments	–	5,628,247,116
	₱16,732,186,650	₱10,811,795,343

Financial assets at FVPL of the Bank consist of:

	2009	2008
Government securities	₱1,422,736,276	₱451,569,808
Private bonds	64,365,274	1,833,652
	₱1,487,101,550	₱453,403,460

Financial assets at FVPL include net unrealized gains of ₱0.78 million and ₱3.74 million as of December 31, 2009 and 2008, respectively, reported under 'Trading securities gain (loss) - net'

AFS investments of the Bank consist of:

	2009	2008
Government securities	₱13,544,135,228	₱3,890,703,882
Private bonds	1,577,730,191	765,343,292
Unquoted equity securities	174,831,246	124,158,689
	15,296,696,665	4,780,205,863
Allowance for impairment losses (Note 14)	(51,611,565)	(50,061,096)
	₱15,245,085,100	₱4,730,144,767

Allowance for impairment losses is attributable to AFS unquoted equity securities.

As of December 31, 2009 and 2008, AFS investments include net unrealized gains (losses) as follows:

	2009	2008
Balance at the beginning of year	(₱289,601,784)	(₱14,525,270)
Unrealized gains (losses) recognized in equity	161,669,759	(228,695,480)
Amounts realized in income	400,339,872	(46,381,034)
	₱272,407,847	(₱289,601,784)

As of December 31, 2008, HTM investments of the Bank consist of:

Government securities	₱3,873,934,459
Private bonds	1,754,312,657
	₱5,628,247,116

Peso-denominated government bonds bear nominal annual interest rates ranging from 5.35% to 15.75% in 2009 and from 5.50% to 14.00% in 2008, while foreign currency - denominated bonds bear nominal interest ranging from 4.20% to 7.28% in 2008 and 4.00% to 10.63% in 2008.

In 2009, the Bank participated in a debt exchange program of certain HTM investments due in 2010 and 2011 bonds have been exchanged for bonds with longer maturity of 2019 and 2024.

In accordance with PAS 39, with the sale of certain HTM investments, all of its outstanding HTM investments as of December 31, 2009 should be reclassified to AFS investments. The Bank is also prohibited from classifying securities as HTM investments for the next 2 years.

Interest income on trading and investment securities follows:

	2009	2008
Financial assets at FVPL	**₱127,221,639**	₱126,028,498
AFS investments	**558,891,448**	411,326,482
HTM investments	**343,789,831**	119,373,489
	₱1,029,902,918	₱656,728,469

Trading and securities gains - net consist of:

	2009	2008
AFS investments	**₱400,339,872**	₱46,381,034
Financial assets at FVPL	**26,394,283**	78,288,487
	₱426,734,155	₱124,669,521

Reclassification of Financial Assets

In 2008, the Bank reclassified certain securities from financial assets at FVPL and AFS investments categories to the HTM investments category in the statement of financial position. The 2008 global credit crunch had prompted the amendments to be issued by the International Accounting Standards Board, and the adoption of these amendments permitted the Bank to revisit the existing classification of their financial assets. The Bank identified assets, eligible under the amendments, for which at September 11, 2008, it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short-term. The disclosures below detail the impact of the reclassifications to the Bank.

	September 11, 2008	December 31, 2008
HFT investments		
Government Bonds	₱122,594,700	₱116,316,491
AFS investments		
Private bonds	1,464,602,910	1,417,539,021
Government bonds	907,219,793	881,089,009
	₱2,494,417,403	₱2,414,944,521

Effective interest rates on the reclassified securities range from 4.52% to 9.60%. The Bank expects to recover 100.00% of the principal and interest totaling ₱4.25 billion and no impairment loss was recognized during the period.

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

	Face Value	Original Cost	Carrying Value	Fair Value	Amortization of discount/ premium
Private bonds	₱1,285,416,000	₱1,538,481,146	₱1,533,855,512	₱1,375,329,797	₱4,625,635
Government bonds	873,227,520	880,667,893	881,089,009	745,535,578	(421,117)
	₱2,158,643,520	₱2,419,149,039	₱2,414,944,521	₱2,120,865,375	₱4,204,518

Had these investments not been reclassified to HTM investments, further market gains and losses that would have been charged to statement of income amounted to ₱9.82 million and ₱17.56 million for the years ended December 31, 2009 and 2008, respectively and unrealized losses on AFS investments that would have been charged to equity amounted to ₱286.34 million as of December 31, 2008.

In 2009, the HFT and AFS investments which were reclassified to HTM investments in 2008 were reclassified to AFS investments due to sale of certain HTM investments as discussed above.

9. Loans and Receivables

Loans and receivables consist of:

	2009	2008
Receivables from customers		
Corporate lending	**₱11,840,118,757**	₱7,573,524,140
Consumer lending	**17,055,655,356**	8,708,696,979
Residential mortgages	**3,142,238,089**	3,523,211,614
Small business lending	**3,400,588,193**	3,069,597,001
	35,438,600,395	22,875,029,734
Unearned discounts	**(1,318,496,938)**	(785,247,910)
	34,120,103,457	22,089,781,824
Unquoted debt securities		
Government	**288,825,364**	9,022,031
Private	**216,584,726**	219,224,726
	505,410,090	228,246,757
Other receivables		
Accounts receivable	**875,583,300**	608,837,947
Accrued interest receivable	**490,101,894**	445,611,745
Sales contract receivable	**137,960,750**	87,623,054
	1,503,645,944	1,142,072,746
	36,129,159,491	23,460,101,327
Allowance for impairment and credit losses (Note 14)	**(3,272,772,221)**	(1,517,895,292)
	₱32,856,387,270	₱21,942,206,035

Credit card receivables, under consumer lending, amounted to ₱9.32 billion and ₱3.50 billion as of December 31, 2009 and 2008, respectively.

Receivables from customers consist of:

	2009	2008
Loans and discounts	**₱32,972,621,468**	₱20,861,334,435
Customers' liabilities under letters of credit/trust receipts	**1,312,291,881**	1,161,279,250
Bills purchased	**1,153,687,046**	852,416,049
	₱35,438,600,395	₱22,875,029,734

In 2001, a memorandum of understanding between the Bank and Filinvest Land, Inc. (FLI), a related party, was approved and executed, by which the former agreed to purchase, on a without recourse basis, the installment contracts receivable from FLI. On various dates in 2004, several deeds of assignment were executed between the Bank and FLI wherein the latter sold, assigned and transferred without recourse to the former all the rights, titles and interest in various loan accounts and the related mortgages at book value. Receivables purchased outstanding by the Bank without recourse under the terms of the foregoing assignment agreement amounted to ₱167.43 million and ₱427.69 million as of December 31, 2009 and 2008, respectively. The carrying value approximates its fair value at the inception date.

A reconciliation of allowance for impairment and credit losses for loans and receivables per class follows (amounts in thousands):

	2009					
	Corporate Lending	Consumer Lending	Residential Mortgages	Small business lending	Others	Total
At January 1	₱773,855	₱228,970	₱9,340	₱46,650	₱459,080	₱1,517,895
Provision for credit losses (Note 14)	133,275	879,167	(6,887)	(18,463)	(115,830)	871,262
Acquired from merger	–	1,003,603	–	–	–	1,003,603
Write-off (Note 14)	–	(113,787)	–	–	–	(113,787)
Interest accrued on impaired loans	(6,201)	–	–	–	–	(6,201)
At December 31	₱900,929	₱1,997,953	₱2,453	₱28,187	₱343,250	₱3,272,772
Specific impairment	₱780,888	₱–	₱–	₱–	₱–	₱780,888
Collective impairment	120,041	1,997,953	2,453	28,187	343,250	2,491,884
	₱900,929	₱1,997,953	₱2,453	₱28,187	₱343,250	₱3,272,772
Gross amount of individually impaired loans	₱1,026,473	₱–	₱–	₱–	₱–	₱1,026,473

	2008					
	Corporate Lending	Consumer Lending	Residential Mortgages	Small business lending	Others	Total
At January 1	₱621,674	₱102,416	₱62,401	₱19,252	₱294,598	₱1,100,341
Provision for credit losses (Note 14)	158,016	126,554	(53,061)	27,398	164,482	423,389
Interest accrued on impaired loans	(5,835)	–	–	–	–	(5,835)
At December 31	₱773,855	₱228,970	₱9,340	₱46,650	₱459,080	₱1,517,895
Specific impairment	₱702,166	₱–	₱–	₱41,676	₱–	₱743,842
Collective impairment	71,689	228,970	9,340	4,974	459,080	774,053
	₱773,855	₱228,970	₱9,340	₱46,650	₱459,080	₱1,517,895
Gross amount of individually impaired loans	₱1,038,122	₱–	₱–	₱–	₱–	₱1,038,122

The following is a reconciliation of the individual and collective allowances for impairment losses on loans and receivables:

	2009			2008		
	Specific Impairment	**Collective Impairment**	**Total**	Specific Impairment	Collective Impairment	Total
At January 1	**₱743,842**	**₱774,053**	**₱1,517,895**	₱557,739	₱542,602	₱1,100,341
Provision for credit losses	**37,046**	**828,015**	**865,061**	186,103	231,451	417,554
Acquired from merger	**–**	**1,003,603**	**1,003,603**	–	–	–
Write-off	**–**	**(113,787)**	**(113,787)**	–	–	–
At December 31	**₱780,888**	**₱2,491,884**	**₱3,272,772**	₱743,842	₱774,053	₱1,517,895

Interest income on loans and receivables for the years ended December 31, 2009 and 2008 consist of:

	2009	2008
Receivables from customers	**₱3,808,038,715**	₱2,132,726,226
Unquoted debt securities	**70,011,882**	22,641,182
Interest accrued on impaired loans	**6,200,627**	5,834,846
	₱3,884,251,224	₱2,161,202,254

BSP Reporting

Of the total receivables from customers of the Bank as of December 31, 2009 and 2008, 79.34% and 94.34%, respectively, are subject to periodic interest repricing. The remaining peso receivables from customers earn annual fixed interest rates ranging from 7.77% to 12.19% and 15.09% to 15.82% in 2009 and 2008, respectively, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 5.61% to 8.94% and 2.36% to 7.82% in 2009 and 2008, respectively.

The details of the secured and unsecured loans receivables of the Bank follow (amounts in thousands):

	2009		2008	
	Gross Amount	**%**	Gross Amount	%
Loans secured by:				
Chattel	**₱9,069,332**	**25.59**	₱4,044,556	17.68
Real estate	**6,078,153**	**17.15**	5,913,687	25.85
Hold-out on deposit	**382,563**	**1.08**	596,746	2.61
Others	**1,467,616**	**4.14**	482,731	2.11
	16,997,664	**47.96**	11,037,720	48.25
Unsecured	**18,440,936**	**52.04**	11,837,310	51.75
	₱35,438,600	**100.00**	₱22,875,030	100.00

Information on the concentration of credit as to industry follows (amounts in thousands):

	2009		2008	
	Gross Amount	**%**	Gross Amount	%
Personal consumption	**₱16,293,226**	**45.98**	₱6,533,290	28.56
Real estate, renting and business services	**5,042,675**	**14.23**	5,826,743	25.47
Wholesale and retail trade	**5,875,788**	**16.58**	4,116,592	18.00
Manufacturing	**2,825,245**	**7.97**	2,852,769	12.47
Financial intermediaries	**1,473,911**	**4.16**	1,365,737	5.97
Agriculture, fisheries and forestry	**456,410**	**1.29**	476,254	2.08
Transport, storage and communications	**948,038**	**2.68**	219,138	0.96
Others	**2,523,307**	**7.12**	1,484,507	6.49
	₱35,438,600	**100.00**	₱22,875,030	100.00

BSP Circular No. 351 allows banks to exclude from nonperforming classification 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 and that such receivables shall be deducted from the total receivable portfolio for purposes of computing NPLs. As of December 31, 2009 and 2008, NPLs of the Bank not fully covered by allowance for credit losses follow (amounts in thousands):

	2009	2008
Total NPLs	**₱3,748,669**	₱2,219,879
NPLs fully covered by allowance for credit losses	**(1,499,813)**	(516,800)
	₱2,248,856	₱1,703,079

As of December 31, 2009 and 2008, secured and unsecured NPLs of the Bank follow (amounts in thousands):

	2009	2008
Secured	**₱1,701,133**	₱1,588,810
Unsecured	**2,047,536**	631,069
	₱3,748,669	₱2,219,879

10. Property and Equipment

The composition of and movements in this account follow:

	2009					
	Land	Buildings	Construction in Progress	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
As of January 1	₱269,306,675	₱74,381,591	₱–	₱585,164,806	₱389,702,117	₱1,318,555,189
Additions	–	654,554	180,798,758	121,781,561	114,777,046	418,011,919
Acquisitions from merger	–	–	–	202,386,595	–	202,386,595
Disposals	(5,502,250)	(4,953,847)	–	(3,865,092)	–	(14,321,189)
Reclassifications	–	2,555,410	–	–	–	2,555,410
As of December 31	263,804,425	72,637,708	180,798,758	905,467,870	504,479,163	1,927,187,924
Accumulated depreciation and amortization						
As of January 1	₱–	₱16,351,097	₱–	₱407,494,346	₱247,006,372	₱670,851,815
Depreciation and amortization	–	2,554,937	–	108,523,742	44,824,254	155,902,933
Acquired from merger	–	–	–	143,412,296	–	143,412,296
Disposals	–	–	–	(2,274,093)	–	(2,274,093)
Reclassifications	–	(2,009,640)	–	–	–	(2,009,640)
As of December 31	–	16,896,394	–	657,156,291	291,830,626	965,883,311
Net book value	₱263,804,425	₱55,741,314	₱180,798,758	₱248,311,579	₱212,648,537	₱961,304,613

	2008				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
As of January 1	₱269,306,675	₱73,859,466	₱473,181,573	₱331,642,992	₱1,147,990,706
Additions	–	522,125	116,204,651	58,065,225	174,792,001
Disposals	–	–	(1,000,000)	–	(1,000,000)
Reclassifications	–	–	(3,221,418)	(6,100)	(3,227,518)
As of December 31	269,306,675	74,381,591	585,164,806	389,702,117	1,318,555,189
Accumulated depreciation and amortization					
As of January 1	–	13,843,895	347,132,288	212,615,181	573,591,364
Depreciation and amortization	–	2,560,522	65,650,792	34,528,517	102,739,831
Disposals	–	–	(999,999)	–	(999,999)
Reclassifications	–	(53,320)	(4,288,735)	(137,326)	(4,479,381)
As of December 31	–	16,351,097	407,494,346	247,006,372	670,851,815
Net book value	₱269,306,675	₱58,030,494	₱177,670,460	₱142,695,745	₱647,703,374

11. Investment Properties

The composition of and movements in this account follow:

	2009		
	Land	**Buildings and Improvements**	**Total**
Cost			
At January 1	**₱730,234,279**	**₱232,326,130**	**₱962,560,409**
Additions	**179,954,703**	**174,765,761**	**354,720,464**
Acquisitions from merger	**349,434**	**–**	**349,434**
Disposals	**(42,958,285)**	**(54,547,838)**	**(97,506,123)**
Reclassification	**(61,336,192)**	**20,557,661**	**(40,778,531)**
At December 31	**806,243,939**	**373,101,714**	**1,179,345,653**
Accumulated depreciation and amortization			
At January 1	**–**	**51,312,130**	**51,312,130**
Depreciation and amortization	**–**	**89,045,131**	**89,045,131**
Disposals	**–**	**(17,149,944)**	**(17,149,944)**
At December 31	**–**	**123,207,317**	**123,207,317**
Accumulated impairment losses (Note 14)			
At January 1	**186,304,118**	**57,455,845**	**243,759,963**
Provision for impairment losses	**–**	**619,087**	**619,087**
Disposals	**(4,712,450)**	**(719,078)**	**(5,431,528)**
At December 31	**181,591,668**	**57,355,854**	**238,947,522**
Net book value	**₱624,652,271**	**₱192,538,543**	**₱817,190,814**

	2008		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱755,665,525	₱234,751,221	₱990,416,746
Additions	43,267,423	40,097,795	83,365,218
Disposals	(80,494,555)	(44,450,725)	(124,945,280)
Reclassification	11,795,886	1,927,839	13,723,725
At December 31	730,234,279	232,326,130	962,560,409
Accumulated depreciation and amortization			
At January 1	–	37,968,733	37,968,733
Depreciation and amortization	–	23,599,191	23,599,191
Disposals	–	(10,255,794)	(10,255,794)
At December 31	–	51,312,130	51,312,130
Accumulated impairment losses (Note 13 and 14)			
At January 1	151,050,685	27,705,138	178,755,823
Provision for impairment losses	46,306,004	22,035,496	68,341,500
Disposals	(9,063,470)	(5,240,960)	(14,304,430)
Reclassifications	(1,989,101)	12,956,171	10,967,070
At December 31	186,304,118	57,455,845	243,759,963
Net book value	₱543,930,161	₱123,558,155	₱667,488,316

The Bank's investment properties consist entirely of real estate properties and land improvements acquired in settlement of loans and receivables.

The fair values of the Bank's investment properties have been determined on the basis of recent sale of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

The aggregate fair value of the investment properties of the Bank amounted to ₱1.09 billion and ₱981.03 million as of December 31, 2009 and 2008, respectively.

As of December 31, 2009 and 2008, foreclosed investment properties still subject to redemption period by the borrower amounted to ₱1.3 billion and ₱1.1 billion, respectively.

Direct operating expenses from investment properties not generating rent income amounted to ₱354.72 million in 2009 and ₱83.36 million in 2008.

12. Other Assets

This account consists of:

	2009	2008 (As restated)
Security deposits	**₱268,210,922**	₱112,584,965
Capitalized computer software - net	**219,804,675**	106,223,754
Other repossessed assets - net	**194,168,920**	202,268,493
Deferred charges	**56,005,839**	82,669,080
Plan asset	**43,046,710**	27,209,273
Returned cash and other cash items	**38,794,658**	53,303,764
Advances to contractors	**–**	134,846,119
Miscellaneous - net (Notes 4 and 24)	**674,492,827**	392,885,036
	1,494,524,551	1,111,990,484
Allowance for impairment losses (Note 14)	**(195,024,016)**	(136,119,242)
	₱1,299,500,535	₱975,871,242

Miscellaneous assets consist mainly of inter-office float items, suspense accounts, documentary stamps, stationary and supplies unissued, card acquisition costs and other investments.

The movements in other repossessed assets follow:

	2009	2008
Cost		
As of January 1	**₱228,394,185**	₱140,113,796
Additions	**146,073,851**	195,042,162
Disposals	**(143,744,980)**	(106,378,212)
Reclassification	**(1,104,417)**	(383,561)
As of December 31	**229,618,639**	228,394,185
Accumulated depreciation		
As of January 1	**26,125,692**	9,088,229
Depreciation and amortization	**33,744,637**	31,278,430
Disposals	**(24,420,610)**	(14,240,967)
As of December 31	**35,449,719**	26,125,692
Accumulated impairment losses (Note 14)		
As of January 1	**67,876,721**	59,933,758
Provision for (reversal of) impairment losses	**(9,219,192)**	7,942,963
As of December 31	**58,657,529**	67,876,721
Net book value	**₱135,511,391**	₱134,391,772

Movements in capitalized computer software follow:

	2009	2008
Balance at beginning of year	₱106,223,754	₱68,593,443
Computer software purchased during the year	175,062,688	106,416,303
Amortization during the year	(56,949,438)	(47,477,045)
Write-off	(4,532,329)	(21,308,947)
Balance at end of year	₱219,804,675	₱106,223,754

13. Intangible Asset

As of December 31, 2009, the Bank's intangible assets consist of:

	Goodwill	Customer Relationship	Core Deposits	Total
Cost				
As of January 1	₱150,211,812	₱–	₱–	₱150,211,812
Acquisitions	769,042,372	154,625,698	40,433,000	964,101,070
As of December 31	919,254,184	154,625,698	40,433,000	1,114,312,882
Accumulated amortization				
As of January 1	–	–	–	–
Depreciation and amortization	–	(3,919,855)	(3,042,476)	(6,962,331)
As of December 31	–	(3,919,855)	(3,042,476)	(6,962,331)
Net book value	₱919,254,184	₱150,705,843	₱37,390,524	₱1,107,350,551

The business combination between the Bank and AIGPASB Group in 2009 resulted to goodwill amounting to ₱769.04 million and other intangible assets such as customer relationship and core deposit amounting to ₱154.63 million and ₱40.43 million, respectively (see Note 6).

The business combination between the Bank and ESBI in 2003 resulted to goodwill amounting to ₱172.8 million (see Note 6).

For impairment testing of goodwill, the recoverable amount has been determined based on value in use calculation using projected cash flows for the next five years of the cash-generating units. The discount rate applied to cash flow projections is 12.00% and 11.28% in 2009 and 2008, respectively. No impairment loss was assessed in 2009 and 2008.

14. Allowance for Impairment and Credit Losses

Details of and changes in the allowance for impairment and credit losses follow:

	2009	2008 (As restated)
Balances at beginning of year		
Due from BSP and other banks	**₱45,186,318**	₱82,353,626
AFS investments (Note 8)	**50,061,096**	50,061,096
Loans and receivables (Note 9)	**1,517,895,292**	1,100,341,025
Investment properties (Note 11)	**243,759,963**	178,755,823
Other assets (Note 12)	**136,119,242**	59,933,758
	₱1,993,021,911	1,471,445,328
Provisions charged to current operations (Note 9, 11 and 12)	**1,255,400,842**	556,411,381
Acquired from merger	**690,053,988**	–
Charge-off	**(33,117,703)**	53,353,674
Interest accrued on impaired loans	**(6,200,628)**	(5,834,846)
Write-off (Note 9)	**(113,787,063)**	(82,353,626)
Balances at end of year	**27,016,023**	45,186,318
Due from BSP and other banks	**51,611,565**	50,061,096
AFS investments (Note 8)	**3,272,772,221**	1,517,895,292
Loans and receivables (Note 9)	**238,947,522**	243,759,963
Investment properties (Note 11)	**195,024,016**	136,119,242
Other assets (Note 12)	**₱3,785,371,347**	₱1,993,021,911

15. Deposit Liabilities

Of the total deposit liabilities of the Bank as of December 31, 2009 and 2008, about 64.67% and 48.69%, respectively, are subject to periodic interest repricing. The remaining deposit liabilities earn annual fixed interest rates ranging from 1.25% to 5.88% and from 1.50% to 6.00% in 2009 and 2008, respectively. Under existing BSP regulations, non-FCDU deposit liabilities are subject to liquidity reserve equivalent to 11.00% starting July 15, 2005 (under BSP Circular No. 491), and statutory reserve of 8.00% starting December 14, 2008 (under BSP Circular No. 632). As of December 31, 2009 and 2008, the Bank is in compliance with such regulations.

Available reserves as of December 31, 2009 and 2008 follow:

	2009	2008
Cash and other cash items	**₱1,320,113,500**	₱1,348,548,104
Due from BSP	**6,333,301,778**	4,320,954,983
	₱7,653,415,278	₱5,669,503,087

16. Bills and Acceptances Payable

This account consists of borrowings from:

	2009	2008
BSP	₱1,944,962,845	₱2,363,157,640
Outstanding acceptances	12,674,456	8,559,635
Banks and other financial institutions	–	14,000,000
	₱1,957,637,301	₱2,385,717,275

Bills payable to the BSP, other banks and other financial institutions are subject to annual interest rates ranging from 2.47% to 5.84% in 2009 and from 4.50% to 9.64% in 2008.

For the years ended December 31, 2009 and 2008, the Bank's interest expense on bills and acceptances payable amounted to ₱118.90 million and ₱46.87 million, respectively.

17. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2009	2008
Accrued expenses	₱213,780,252	₱73,834,676
Accrued interest payable	197,441,929	203,896,307
Accrued other taxes	71,401,465	23,262,129
Income tax payable	16,304,654	8,861,134
	₱498,928,300	₱309,854,246

Accrued expenses pertain to accruals of various operating expenses such as rent, utilities, management and professional fees, performance bonus and others.

18. Subordinated Debt

On July 25, 2008, the Bank issued ₱1.25 billion lower tier 2 unsecured subordinated notes (the Notes) callable with Step up interest in 2014 in minimum denominations of ₱ 500,000 and in integral multiples of ₱100,000 thereafter, due January 26, 2019. Unless the Notes are previously redeemed, the Notes are repayable to the Note holders at 100.00% of their face value or at par on the maturity date. The Notes bear interest at the rate of 8.63% per annum payable to each Note holder for the period from and including the issue date up to, but excluding the optional redemption date of January 25, 2014 whether redemption is exercised or not. If the Notes are not redeemed prior to or on January 25, 2014, the interest will be reset at the Step-Up interest rate.

The step-up rate shall be computed as the higher of:

a.) 80.00% of the 5-year on-the-run Philippine Treasury benchmark bid yield (PDST-F) on optional redemption date plus the step up spread. The step up spread is defined as follows:

Step up spread = 150.00% [8.25% - 80.00% (5-year PDST-F on the pricing date before the initial issue date)]

b.) 150.00% of the difference between the interest rate and the 5-year PDST-F on the pricing date preceding the initial issue date plus the 5-year PDST-F on the optional redemption date.

For the years ended December 31, 2009 and 2008, the Bank's interest expense on subordinated debt amounted to ₱107.81 million and ₱46.72 million, respectively.

19. Other Liabilities

This account consists of:

	2009	2008 (As restated)
Bills purchased - contra (Note 4)	**₱1,094,968,863**	₱780,301,533
Accounts payable (Note 4)	**675,340,786**	443,906,640
Payment orders payable	**489,447,643**	98,312,696
Deferred credits	**215,573,940**	82,751,450
Withholding tax payable	**10,246,987**	41,195,787
Marginal deposits and letters of credit (Note 4)	**3,057,109**	5,325,012
Due to BSP	**–**	13,436,733
Miscellaneous (Note 5)	**60,466,613**	163,613,293
	₱2,549,101,941	₱1,628,843,144

Miscellaneous liabilities include capitalized interest on restructured loans, derivative liability, interoffice float items and suspense accounts.

20. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from statement of financial position date (amounts in thousands):

	2009			2008 (As restated)		
	Less than 12 months	**Over 12 months**	**Total**	Less than 12 months	Over 12 months	Total
Financial Assets						
COCI	**₱1,605,787**	**₱–**	**₱1,605,787**	₱1,756,510	₱–	₱1,756,510
Due from BSP - gross (Note 14)	**6,349,243**	**–**	**6,349,243**	4,655,618	–	4,655,618
Due from other banks	**3,285,005**	**–**	**3,285,005**	873,186	–	873,186
IBLR and SPURA	**8,933,100**	**–**	**8,933,100**	6,020,000	–	6,020,000
Financial assets at FVPL	**893,518**	**593,584**	**1,487,102**	309,215	144,188	453,403
AFS investments - gross (Note 8)	**533,632**	**14,763,065**	**15,296,697**	303,580	4,476,626	4,780,206
HTM investments	**–**	**–**	**–**	–	5,628,247	5,628,247
Loans and receivables - gross (Note 9)	**23,285,668**	**14,161,988**	**37,447,656**	15,603,651	8,641,699	24,245,350
	44,885,953	**29,518,637**	**74,404,590**	29,521,760	18,890,760	48,412,520
Nonfinancial Assets						
Property and equipment	**–**	**961,305**	**961,305**	–	647,703	647,703
Investment property - gross (Note 11)	**–**	**1,056,138**	**1,056,138**	–	911,248	911,248
Deferred tax assets	**–**	**1,082,290**	**1,082,290**	–	625,006	625,006
Intangible assets	**–**	**1,107,350**	**1,107,350**	–	150,212	150,212
Other assets - gross (Note 12)	**792,527**	**701,997**	**1,494,524**	335,724	776,266	1,111,990
	792,527	**4,909,080**	**5,701,607**	335,724	3,110,435	3,446,159
	45,678,480	**34,427,717**	**80,106,197**	29,857,484	22,001,195	51,858,679
Allowances for impairment and credit losses (Note 14)			**(3,785,371)**			(1,993,022)
Unearned discounts (Note 9)			**(1,318,497)**			(785,248)
			75,002,329			49,080,409
Financial Liabilities						
Deposit liabilities	**38,984,443**	**20,800,403**	**59,784,846**	28,842,711	10,504,105	39,346,816
Bills payable and acceptances payable	**1,957,637**	**–**	**1,957,637**	2,371,717	14,000	2,385,717
Cashiers' checks and demand drafts payable	**822,254**	**–**	**822,254**	176,111	–	176,111
Subordinated debt (Note 18)	**–**	**1,250,000**	**1,250,000**	–	1,250,000	1,250,000
Accrued interest, taxes and other expense (Note 16)	**200,333**	**–**	**200,333**	203,896	–	203,896
Other liabilities (Note 19)	**1,655,556**	**–**	**1,655,556**	1,242,970	–	1,242,970
	43,620,223	**22,050,403**	**65,670,626**	32,837,405	11,768,105	44,605,510
Nonfinancial liabilities						
Accrued interest, taxes and other expense (Note 16)	**298,595**	**–**	**298,595**	105,958	–	105,958
Other liabilities (Note 19)	**893,546**	**–**	**893,546**	385,873	–	385,873
	1,192,141	**–**	**1,192,141**	491,831	–	491,831
	₱44,812,364	**₱22,050,403**	**₱66,862,767**	₱33,329,236	₱11,768,105	₱45,097,341

21. Equity

Capital stock as of December 31, 2009 and 2008 consist of:

	2009	2008
Preferred stock - ₱10.00 par value convertible, nonvoting shares		
Authorized, issued and outstanding - 300,000,000 shares	**₱3,000,000,000**	₱–
Common stock - ₱10.00 par value		
Authorized - 500,000,000 shares		
Issued and outstanding - 387,352,810 shares	**3,873,528,100**	3,873,528,100
	₱6,873,528,100	₱3,873,528,100

In its meeting held on December 18, 2008, the BOD of the Bank resolved to increase the capital stock of the Bank from ₱5.00 billion to ₱8.00 billion through the issuance of ₱3.00 billion Preferred "A" shares of stock (300,000,000 shares at ₱10.00 par value).

On June 5, 2009, the SEC approved the Bank's amended Articles of Incorporation which contains the increase in authorized capital stock

The Preferred "A" shares will have the following features:

a. Non-Voting. Owners or holders of Preferred Shares shall have no voting rights, except in matters as to which existing law requires to vote or consent of the holders of a specified proportion of all the stock of the Bank irrespective of class.

b. Convertible. Owners or holders of the Preferred Shares may convert the same to Voting Common Shares, provided, that any such conversion shall not be in conflict with or violate the applicable nationality requirements or other limitations on stock holdings in banks prescribed in the General Banking Act, the rules and regulations promulgated by the BSP and the Corporation Code. Conversion of Preferred Shares to Common Shares shall be at par value.

c. Dividend Rights. The holders of preferred shares shall be entitled to receive cash dividends at nine per cent (9.00%) per annum for the first 5 years, payable quarterly from the unrestricted retained earnings of the Bank subject to existing regulations of the BSP applicable to declaration of dividends on preferred shares. The BOD of the Bank shall determine the yield of the Preferred Shares 5 years after the date of its first issue and every fifth year anniversary date thereof.

d. Accumulation of Dividends. The dividends of Preferred Shares shall be non-cumulative.

e. Term - Perpetual unless converted into common shares.

On June 19, 2009, FDC and FDC Forex, a wholly owned subsidiary of FDC, infused additional cash to the Bank amounting to ₱1.20 billion and ₱0.80 billion, respectively. Also, on December 23, 2009, FDC and FDC Forex infused additional cash amounting to ₱0.60 billion and ₱0.40 billion, respectively. Preferred shares amounting to ₱1.80 billion and ₱1.20 billion were issued to FDC and FDC Forex Corporation, respectively covering the total amount of capital infused during the year. FDC and FDC Forex hold 60.00% and 40.00% ownership of the Bank, respectively.

Capital Management

The Bank actively manages its capital in accordance with regulatory requirements. The primary objective of which is to ensure that the Bank, at all times, maintains adequate capital to cover risks inherent to its banking activities without prejudice to optimizing shareholder's value. As a matter of policy, the Bank adopts capital adequacy requirements based on the New Capital Accord or Basel II, as contained in the implementation guidelines of BSP Circular No. 538 which took effect in July 2007. Under this rule, risk weight ratings are based on external rating agencies. Moreover, total risk weighted assets is being computed based on credit, market and operational risks.

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 "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based CAR of a 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 regulatory Gross Qualifying Capital of the Bank consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and minority interest less required deductions such as deferred income tax and unsecured credit accommodations to DOSRI. Tier 2 capital includes unsecured subordinated debts, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis) and equity investments in subsidiary non-financial allied undertakings.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 150.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

Below is a summary of risk weights and selected exposure types:

Risk weight	Exposure/Asset type*
0.00%	Cash on hand; claims collateralized by securities issued by the NG, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20.00%	COCI, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50.00%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75.00%	Direct loans of defined Small Medium Enterprise (SME) and microfinance loans portfolio; non-performing housing loans fully secured by first mortgage
100.00%	All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred income tax)
150.00%	All non-performing loans (except non-performing housing loans fully secured by first mortgage) and all non-performing debt securities

* Not all inclusive

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50% (interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For credit-linked notes and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

The Bank's risk-weighted capital adequacy ratio is calculated by dividing the sum of its Tier 1 and Tier 2 capital, as defined under BSP regulations, by its risk-weighted assets. The risk-weighted assets, as defined by the BSP regulations, consist of all of the assets on the Bank's balance sheet at their respective book values, together with certain other off-balance sheet items, weighted by certain percentages depending on the risks associated with the type of assets.

The determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRS in some respects.

During the period 2009 and 2008, the Bank has complied with the 10.00% BSP required capital adequacy ratio.

The capital-to-risk assets ratio of the Bank as reported to the BSP as of December 31, 2009 and 2008 are shown in the table below (amounts in millions).

	2009		2008	
	Actual	**Required**	Actual	Required
Tier 1 capital	**₱7,745.9**		₱4,462.55	
Tier 2 capital	**1,619.1**		1,545.32	
Gross qualifying capital	**9,365.0**		6,007.87	
Less Required deductions	**2,033.5**		867.18	
Total qualifying capital	**7,331.5**	**₱2,400.00**	5,140.69	₱2,400.00
Risk weighted assets	**53,702.27**		36,532.63	
Tier 1 capital ratio	**10.60%**		9.84%	
Total capital ratio	**13.70%**	**10.00%**	14.07%	10.00%

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 were effective starting July 1, 2007.

In 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) which supplements the BSP's risk-based capital adequacy framework under the BSP Circular No. 538. As required by the BSP, the Bank is currently in the process of developing its ICAAP.

22. Miscellaneous Expenses

Miscellaneous expense consists of:

	2009	2008
Advertising	**₱195,784,377**	₱102,448,710
Service charges, fees and commission	**162,685,547**	78,154,935
Postage, telephone, cables and telegram	**148,535,243**	82,356,523
Technological fees	**141,629,135**	18,155,049
Security, messengerial and janitorial services	**140,692,557**	99,221,012
Transportation and traveling	**121,893,662**	118,331,261
Insurance	**97,000,280**	68,161,801
Management and other professional fees	**75,879,399**	12,392,799
Stationery and supplies	**73,613,254**	37,531,079
Power, light and water	**57,843,993**	43,319,935
Litigation expenses	**47,723,218**	32,112,097
Repairs and maintenance	**46,606,508**	36,256,025
Brokerage fees	**31,386,570**	9,460,429
Banking fees	**22,036,485**	13,436,681
Entertainment, amusement and recreation	**29,826,432**	27,803,371
Write off of computer software	**4,532,329**	21,308,947
Others	**139,247,839**	85,871,323
	₱1,536,916,828	₱886,321,977

Other expenses include payments for subscriptions, membership fees, trainings, donations and contributions, delivery and freight expenses.

23. Income and Other Taxes

Under Philippine tax laws, the RBU of the Bank is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp taxes. Income taxes include corporate income tax, as discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statement of income.

Republic Act (RA) No. 9397, An Act Amending National Internal Revenue Code, provides that the Regular Corporate Income Tax (RCIT) rate shall be 35.00% until December 31, 2008. Starting January 1, 2009, the RCIT shall be 30.00%. The interest expense allowed as a deductible expense is reduced by 42.00% starting November 1, 2005 until December 2008. Starting January 1, 2009, interest expense allowed as deductible expense shall be reduced to 33.00% of interest income subjected to final tax.

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

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 7.50% final tax. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, Offshore Banking Units (OBUs), local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	2009	2008 (As restated)
Current:		
Final tax	**₱186,728,948**	₱109,751,646
RCIT	**81,843,909**	–
MCIT	**–**	33,002,831
	268,572,857	142,754,477
Deferred	**(220,516,268)**	39,124,731
	₱48,056,589	₱181,879,208

The components of the Bank's net deferred tax assets follow:

	2009	2008 (As restated)
Deferred tax asset on:		
Allowance for impairment and credit losses	**₱1,137,160,571**	₱604,319,192
Depreciation of assets foreclosed or dacioned	**62,751,626**	23,075,387
Unamortized past service cost	**5,968,801**	–
MCIT	**911,319**	32,408,524
NOLCO	**–**	23,004,207
	1,206,792,317	682,807,310
Deferred tax liability on:		
Gains on asset foreclosure and dacion transactions	**77,325,693**	54,299,217
Unrealized foreign exchange gain	**29,064,715**	–
Deferred taxes acquired from business combination	**14,609,551**	–
Net retirement plan assets	**3,502,483**	3,502,483
	124,502,442	57,801,700
Net deferred tax assets	**₱1,082,289,875**	₱625,005,610

The details of the Bank's NOLCO and MCIT follow:

Year Incurred	Amount	Used	Expired	Balance	Expiry Year
NOLCO					
2007	₱59,860,991	₱59,860,991	₱–	₱–	2010
2006	151,853,428	151,853,428	–	–	2009
2005	295,086,760	295,086,760	–	–	2008
	₱506,801,179	₱506,801,179	₱–	₱–	

Year Incurred	Amount	Used/	Expired	Balance	Expiry Year
MCIT					
2008	₱33,914,150	₱–	₱–	₱33,914,150	2011
2007	20,811,569	20,811,569	–	–	2010
2006	11,596,955	11,596,955	–	–	2009
2005	8,078,775	–	(8,078,775)	–	2008
	₱74,401,449	₱32,408,524	(₱8,078,775)	₱33,914,150	

As of December 31, 2009 and 2008, the Bank has unrecognized deferred tax assets on MCIT amounting to ₱33.91 million. As of December 31, 2008, the Bank has unrecognized deferred tax assets on NOLCO amounting to ₱17.96 million in which the Bank used in 2009.

The reconciliation of statutory income tax at statutory tax rate to the effective income tax follows:

	2009	2008 (As restated)
Statutory income tax	**₱200,914,431**	₱91,078,703
Additions to (reductions from) income taxes resulting from the tax effects of:		
FCDU income	**(161,065,471)**	(66,625,908)
Nondeductible expenses	**83,960,138**	96,777,568
Interest income subjected to final tax net of tax paid	**(60,954,237)**	(84,884,208)
Effect of expired MCIT	**33,683,186**	8,078,775
Change in unrecognized deferred tax assets	**(28,505,794)**	30,009,781
Non taxable and tax-exempt income	**(19,975,664)**	(9,494,517)
Effect of change in income tax rate	**–**	116,939,014
Effective income tax	**₱48,056,589**	₱181,879,208

24. Retirement Plan

The Bank has a funded noncontributory defined benefit retirement plan (the Plan) covering substantially all of its officers and regular employees. Under the Plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The principal actuarial assumptions used in determining retirement liability of the Bank under the Plan are shown below:

	2009	2008
Discount rate:		
At January 1	**15.84%**	10.38%
At December 31	**10.87%**	15.84%
Expected return on plan assets	**8.00%**	5.00%
Future salary increase rate	**5.00%**	5.00%
Average remaining working life	**23**	23

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.

Changes in the present value of the defined obligation (PVO) are as follows:

	2009	2008
As of January 1	**₱26,755,498**	₱30,722,680
Present value of net pension obligation assumed from business combination	**1,905,917**	–
Interest cost	**4,238,071**	3,189,014
Current service cost	**6,999,327**	10,184,754
Benefits paid	**(3,621,937)**	(3,154,655)
Actuarial (gains) loss on PVO	**10,485,023**	(14,186,295)
As of December 31	**₱46,761,899**	₱26,755,498

Changes in fair value of plan assets are as follows:

	2009	2008
As of January 1	**₱64,456,373**	₱37,605,011
Expected return	**3,222,819**	1,880,251
Contributions	**27,072,117**	27,072,717
Benefits paid	**(3,621,937)**	(3,154,655)
Actuarial gains (losses) on plan assets	**(1,786,852)**	1,053,049
As of December 31	**₱89,342,520**	₱64,456,373

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

	2009	2008
Debt instruments	**92.05%**	98.90%
Other assets	**7.95%**	1.10%
	100.00%	100.00%

Changes in the net retirement asset included in 'Miscellaneous asset' in the statement of financial position are as follows:

	2009	2008
Fair value of plan assets	**₱89,342,520**	₱64,456,373
Present value of funded obligation	**46,761,899**	26,755,498
Net plan assets	**42,580,621**	37,700,875
Unrecognized actuarial loss (gain)	**1,956,185**	(10,491,602)
Asset ceiling adjustment	**(1,490,096)**	–
	₱43,046,710	₱27,209,273

The amounts included in 'Compensation and fringe benefits' expense in the statements of income are as follows:

	2009	2008
Current service cost	**₱6,999,327**	₱10,184,754
Interest cost	**4,238,071**	3,189,014
Expected return on plan assets	**(3,222,819)**	(1,880,251)
Recognized actuarial loss (gain)	**(175,912)**	44,875
Expense recognized during the year	**₱7,838,667**	₱11,538,392

The amounts for the current and four previous periods are as follows:

	2009	2008	2007	2006	2005
Fair value of plan assets	**₱89,342,520**	₱64,456,373	₱37,605,011	₱31,612,855	₱27,343,901
PVO	**46,761,899**	26,755,498	30,722,680	31,463,036	39,278,649
Net plan asset	**₱42,580,621**	₱37,700,875	₱6,822,331	₱149,819	₱11,934,748
Experience adjustments on plan liabilities	**(7,727,697)**	4,839,082	5,736,136	11,093,938	3,241,278
Experience adjustments on plan assets	**(1,786,852)**	1,053,049	(1,619,668)	698,752	389,860

As of December 31, 2009, the Bank's planned contribution for 2010 amounted to ₱27.07 million.

25. Leases

The Bank leases several premises occupied by its head office and branches. Some leases are subject to annual escalation of 5.00% to 10.00% and for periods ranging from 5 to 15 years, renewable upon mutual agreement of both parties. Total rentals charged to operations amounted to ₱237.79 million in 2009 and ₱154.53 million in 2008.

Future minimum annual rentals payable under the aforementioned lease agreements follow:

	2009	2008
Within one year	**₱105,768,434**	₱122,922,467
After one year but not more than five years	**171,513,846**	436,546,985
More than five years	**52,574,217**	92,763,188
	₱329,856,497	₱652,232,640

26. Related Party Transactions

In the ordinary course of business, the Bank has various transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI). These transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Bank, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under current banking regulations, the aggregate amount of loans to DOSRI should not exceed the total capital funds or 15.00% of the total loan portfolio of the Bank, whichever is lower. In addition, the amount of direct credit accommodations to DOSRI, of which 70.00% must be secured, should not exceed the amount of their respective regular and/or quasi-deposits and book value of their respective investments in the Bank.

On January 31, 2008, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective February 15, 2008.

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 (amounts in thousands).

	2009	2008
Total outstanding DOSRI accounts	**₱170,397**	₱434,672
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423	**0.02%**	1.79%
Percent of DOSRI accounts granted under BSP Circular No. 423	**0.46%**	1.79%
Percent of DOSRI accounts to total loans	**0.48%**	1.79%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**26.39%**	–
Percent of past due DOSRI loans to total DOSRI loans	**–**	–
Percent of nonaccruing DOSRI loans to total DOSRI loans	**–**	–

The following table shows information relating to the loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular but are allowed a transition period of two years from the effectivity of said circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later, as of December 31, 2009 and 2008 (amounts in thousands):

	2009	2008
Total outstanding non-DOSRI accounts prior to BSP Circular No. 423	**₱827,441**	₱23,812,985
Percent of unsecured non-DOSRI accounts prior to BSP Circular No. 423 to total loans	**2.33%**	49.31%
Percent of past due non-DOSRI accounts prior to BSP Circular No. 423 to total loans	**0.46%**	6.81%
Percent of nonaccruing non-DOSRI accounts prior to BSP Circular No. 423 to total loans	**0.72%**	9.16%

The year-end balances with respect to related parties included in the financial statements follow:

	2009	2008
Loans and receivables		
Hocheng Philippines Corporation	**₱115,140,525**	₱–
FLI	**14,374,798**	7,895,546
Pacific Sugar Holdings, Corp.	**14,188,000**	–
FDC	**–**	430,430,000
Filinvest Alabang, Inc. (FAI)	**–**	513,449
	₱143,703,323	₱438,838,995
Deposit liabilities		
Filinvest AII Philippines Inc.	**₱149,659,710**	₱–
FAI	**141,551,439**	14,928,156
FDC	**56,776,149**	2,352,471
Pacific Sugar Holdings, Corp.	**26,611,385**	–
Hocheng Philippines Corporation	**13,829,891**	–
FDC Capital Cayman	**11,256,050**	–
FLI	**5,569,204**	14,315,036
Filinvest Asia Corporation	**5,534,459**	–
Filinvest Corporate City	**5,512,071**	–
Cyberzone Properties, Inc.	**5,277,731**	6,448,611
Davao Sugar Central Corporation	**1,559,140**	9,376,450
High Yield Sugar Farms, Inc.	**367,940**	6,076,770
FDC Forex	**125,546**	–
Cotabato Sugar Central Co., Inc.	**–**	5,694,634
	₱423,630,715	₱59,192,128

The income and expenses with respect to related parties included in the financial statements follow:

	2009	2008
Interest income on loans and receivables	₱209,790	₱13,847,430
Interest expense for deposit liabilities	331,238	19,159

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

	2009	2008
Compensation and short-term benefits	₱46,016,330	₱43,927,641
Directors' fees	3,005,000	4,939,763
	₱49,021,330	₱48,867,404

27. Trust Operations

Securities and other properties held by the Bank in fiduciary or agency capacity for clients and beneficiaries are not included in the accompanying statement of financial position since these are not assets of the Bank. The combined trust and managed funds operated by the Trust Department of the Bank amounted to ₱8.56 billion and ₱5.07 billion as of December 31, 2009 and 2008, respectively.

Government securities with a total face value of ₱125.00 million and ₱120.00 million as of December 31, 2009 and 2008, respectively, are deposited with the BSP in compliance with current banking regulations related to the Bank's trust functions. These government securities are recorded as part of AFS and HTM investments as of December 31, 2009 and 2008, respectively.

In accordance with BSP regulations, 10.00% of the profits realized by the Bank from its trust operations are appropriated to surplus reserves. The yearly appropriation is required until the surplus reserves for trust operations amounts to 20.00% of the Bank's authorized capital stock.

The Bank's income from its trust operations amounted ₱69.96 million and ₱52.10 million in 2009 and 2008, respectively.

28. Commitments and Contingent Liabilities

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

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

The following is a summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items (amounts in thousands):

	2009	2008
Forward and spot exchange sold	**₱20,768,072**	₱4,218,131
Trust department accounts (see Note 27)	**8,562,559**	5,071,621
Unused commercial letters of credit	**523,812**	637,603
Outstanding guarantees	**181,115**	238,811
Inward bills for collection	**57,825**	92,788
Late deposits/payment received	**26,920**	10,232
Outward bills for collection	**22,451**	61,436
Items held for safekeeping	**4,725**	4,675
Unsold traveler's check	**752**	775
Others	**23,022**	591

29. Financial Performance

Earnings per share amounts were computed as follows:

	2009	2008 (As restated)
a. Net income	**₱621,658,180**	₱121,716,467
b. Weighted average number of outstanding common shares (Note 21)	**387,352,810**	387,352,810
c. Weighted average number of convertible preferred shares (Note 21)	**125,000,000**	–
d. Total weighted average number of outstanding common and convertible preferred shares	**512,352,810**	387,352,810
e. Basic EPS (a/b)	**₱1.60**	₱0.31
f. Diluted EPS (a/d)	**₱1.21**	₱0.31

The following basic ratios measure the financial performance of the Bank:

	2009	2008 (As restated)
Return on average equity	**10.80%**	2.87%
Return on average assets	**0.99%**	0.28%
Net interest margin on average earnings assets	**5.96%**	5.71%

30. Prior Period Adjustment

In 2008, the Bank has unreconciled items in certain suspense accounts with total net assets balance amounting to ₱304.62 million, included in Other assets account, and net debit unreconciled items of Due from BSP and other banks and Other liabilities amounting to ₱114.71 million.

In 2009, the Bank has reconciled the float items included in the above mentioned accounts and restated the 2008 financial statements. The adjustments in 2008 resulted to decrease in Due from BSP amounting to ₱272.57 million, increase in Due from other banks amounting to ₱157.86 million and increase in Other assets and Other liabilities amounting to ₱114.71 million. The Bank also recognized impairment loss amounting to ₱47.77 million in 2008, net of related deferred taxes.

VISION

To be a world-class bank
anchored on
service excellence
in its chosen markets

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