eastwest

Your dream Our focus

Breakthrough 2010

Annual Report

THE NEW EASTWEST BANK LOGO

Our new brandmark is created from two arrows representing the directions of our name, east and west, coming together to symbolize the relationship between the Bank and customer, in the heart of which good things happen.

The two arrows meeting together create a center that represents our focus on customer needs and expectations, consistent with our brand tagline – Your Dream Our Focus.

Our new signature color is a light, fresh green that connotes renewal, growth, freshness, 'go' and similar positive associations. It is a new expression of the green that played a small but pivotal role in our previous corporate identity. Amidst the usual colors in the banking sector, ours is completely unique, personifying our ambition to offer something different, as well as having strong visual impact that speaks of our 'stand-out' qualities.

OUR COVER

A leap of triumph captures the celebratory mood over the breakthrough growth achieved by EastWest Bank in 2010. One can sense the hurdles and challenges that the performer conquered to reach the year's path-breaking record. It is a triumph sealed by the hard work, zeal and dedication poured in by many of us, supported by efforts to continually improve our business processes. It is the culmination of a transformation process that began more than five years ago when fundamental decisions were made to bring the Bank to a new position in the banking sector.

While the leap may seem to mark the end of a race, it is also the jump-off towards a new era as we focus on our vision to be a world-class bank anchored on service excellence. The Annual Report uses the new colors and brandmark of the Bank, signifying the transition from its older identity to the fresh, confident personality it will take on in the years to come.

CONTENTS

2 Message from the Chairman
6 The President Speaks
10 Business Operations Review
18 Risk Management
24 Corporate Governance
28 Board of Directors
32 Senior Management
36 Product & Services
37 Branch Directory
41 Audited Financial Statements

ABOUT EASTWEST BANK

East West Banking Corporation (EastWest Bank) was granted a commercial banking license by the Bangko Sentral ng Pilipinas on July 6, 1994. The Bank formally opened its doors to the public on August 1, 1994. The Bank is a subsidiary of the Filinvest Development Corporation (FDC), the publicly listed holding company of the Filinvest Group that evolved from a consumer business founded by Andrew L. Gotianun, Sr. in 1955. FDC is one of the country's premier conglomerates, with business interests in real estate development, financial and banking services and the sugar business. Through the years, EastWest Bank has successfully capitalized on the financial strength and synergy from the business organizations under the Filinvest Group.

As of end 2010, EastWest Bank ranks as one of the country's fastest-growing banks.

Triple growth recorded in 2010

EastWest Bank ended 2010 with total assets of Php83.8 Billion, growing by 12% over Php75.0 Billion as of end of 2009. While the Bank maintained its overall industry standing at 17th in terms of asset size, it is worth mentioning that the Bank is considered one of the fastest-growing banks in the last few years. From end of 2006 to 2010, EastWest Bank grew at a compounding annual growth rate of 29%, outpacing the industry's compounded growth by more than three-times.

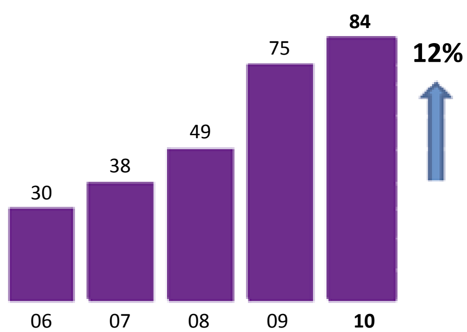
Total deposits increased by 11% to Php66.5 Billion from Php59.8 Billion in 2009, with low cost deposits growing by 20%. On the other hand, total loans-net grew by 22% to Php40.3 Billion over Php33.1 Billion in 2009.

Total capital increased by 20% to Php9.8 Billion in 2010 from Php8.1 Billion in 2009. The growth primarily came from retained earnings, as the Bank posted its highest operating results since it opened its doors to the public.

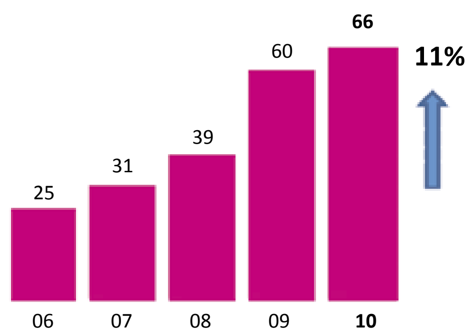
Net Income in 2010 leaped by 191% to Php1.8 Billion from Php621.7 Million in 2009. Total Operating Income rose by 36% to Php7.4 Billion from Php5.5 Billion in 2009. Net interest income jumped by 22% to Php4.3 Billion from Php3.5 Billion in 2009, while other operating income grew by 60% to Php3.1 Billion from Php1.9 Billion.

The record breaking profitability of the Bank translated to Return-on-Equity and Return-on-Assets of 19.80% and 2.34%, respectively, which can be considered as among the highest in the industry for the year 2010.

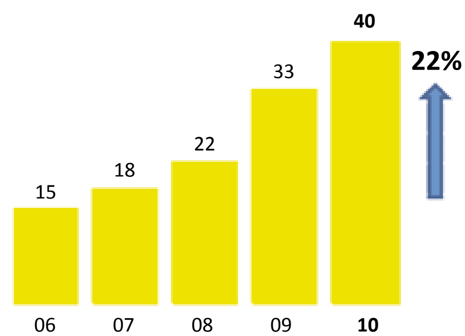
TOTAL RESOURCES
in billion Php



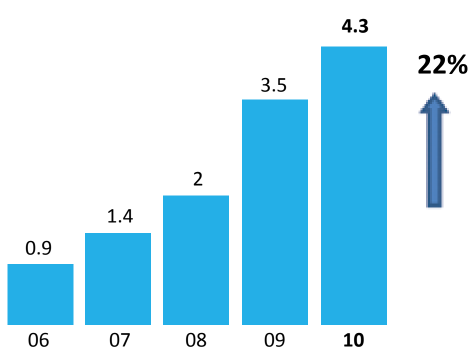
TOTAL DEPOSITS
in billion Php



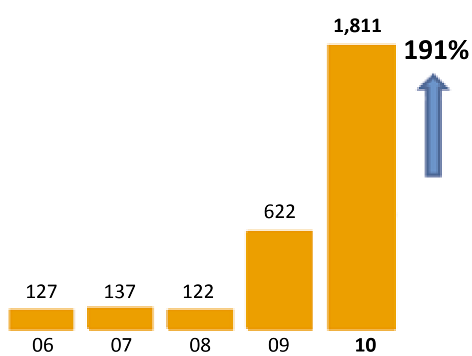
TOTAL LOANS
in billion Php



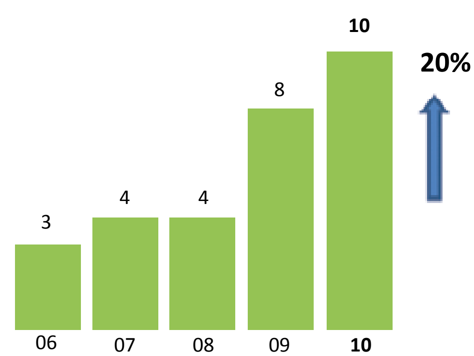
NET INTEREST INCOME
in billion Php



NET INCOME
in billion Php



TOTAL CAPITAL
in billion Php



MESSAGE FROM THE CHAIRMAN

In terms of net income and return on stockholders' equity, EastWest Bank exceeded all its past performance records. It also outperformed all but one of our competitors in terms of ROE and ROA. It ended the year with a healthy balance sheet, that produced a Php1.8-billion net income.

Growth beyond expectations

Dear Shareholders and Valued Clients,

THE YEAR 2010 WAS A BANNER YEAR FOR EASTWEST BANK both on the financial and organizational sides; a breakthrough performance that has positioned the Bank to better serve its customers and respond faster to market challenges.

Notably, the Bank's achievements in 2010 happened against a domestic backdrop of transition in political leadership. Notwithstanding the uncertainties attendant to the political process, the national elections in May transpired with relative peace and calm. The orderly transition, particularly at the Executive level, underscored the fundamental strength of our democratic institutions which helped to bolster confidence for prospective social and economic reforms.

On the economic front, the Philippines was able to keep its economy buoyant amidst a recessionary environment. In 2010, the country emerged as one of the top performing economies in Asia, recording a GDP growth of 7.3%, the highest in 20 years. Investments led the way and achieved a growth of 17.0%. Consumption likewise contributed to the GDP growth, which showed a good performance of 5.3%. Our BOP registered a record surplus of $14.4 billion, while inflation remained well within the range target of Bangko Sentral ng Pilipinas (BSP), averaging only 3.8%. The local stock market index surged 37.6%, making the Philippine Stock Exchange as one of the best performers globally in 2010. Assets of the Philippine banking industry, particularly that of commercial and universal banks in the country, expanded by 11.8% and have remained as stable as ever.

Our 2010 financial performance was made even more remarkable due to the fact that the global banking industry was coming off another period of uncertainty owing to the 2008 recession that hit major economies. Despite the chronic economic downturn of the preceding years, Philippine banks on the whole have fared better than the previous years. The year 2010 was in fact cited in several reports as one of the best years for the banking sector, owing largely to healthy capital ratios, prudent and conservative lending practices, as well as good risk management policies. These measures will expectedly also be the cornerstone of the future success of the Bank.

In terms of net income and return on stockholders' equity, EastWest Bank exceeded all its past performance records. It also outperformed all but one of our competitors in terms of ROE and ROA. It ended the year with a healthy balance sheet, that produced a Php 1.8-billion net income. This came from the expansion in its consumer lending business, good deposit cost structure, bolstered by significant gains in treasury operations. During this time, the Bank also achieved a capital adequacy ratio (CAR) of almost 16%, significantly exceeding the required 10% of the BSP, while also improving its provision for problem loans.

With respect to operational efficiency, the Bank achieved significant gains in productivity. We attribute this to improvements in the motivation, engagement and satisfaction levels of EastWest bankers. We continued to improve our compensation and recognition programs. We conducted internal surveys to understand better the mindset of the workforce. Results of these surveys have always assisted us in improving our management practices. We continued to invest in training to ensure that EastWest Bankers have the right skills, attitude and competencies. We also embarked on culture-building programs designed to imbue our people with the values that guide us on how we deal with each other internally and with our customers. The Bank's value system is now fully embodied in its Manifesto of Behavioral Norms which will serve as a timeless and enduring guidepost for all future generations of EastWest Bankers. The more challenging task now is breathing life into the behavioral norms and values embedded in the Manifesto, which we will be working on in the coming year. Relatedly, we have also just declared 2011 as The Human Resource Year in EastWest Bank. Hence, we will focus on talent acquisition and management and manpower training, and programs that would result to personal growth of our people and an increase in employee satisfaction levels.

Significantly, the Bank also earned universal banking status on November 25, 2010, re-affirming our collective efforts to fulfill the vision of becoming a world-class bank. The BSP approval of the Bank's application for a universal banking license is subject to two conditions. First, we will make an initial public offering of at least 10% of the required minimum capital by end of 2011; and second, we will list the Bank's own shares in the Philippine Stock Exchange (PSE) within three years from the date of the said approval. This will allow the Bank to widen its product offerings, particularly leasing and some areas in investment banking.

In the face of a record-breaking year, we felt it was time for the Bank to reflect on its aspirations and translate all these into a refreshed and vibrant EastWest Bank brand. To this end, we reviewed the Bank's brand value proposition and came up with a brand development model that reflects not only our successes but also our own internal transformation.

The Bank intends to conduct for our people an intensive series of workshops and values deployment programs aimed to align the entire organization – its businesses, operations and culture - around the EastWest Bank brand promise, which is embodied in our new tagline, "Your Dream Our Focus." The entire branding exercise coupled with our culture-building programs should result in an organization that is focused on customer-oriented products and services.

Moving forward, we see a fast-changing economic environment in 2011. Of particular interest was that BSP recently reported that the Philippines, as a whole, is now a net lender rather than net borrower to the rest of the world. Evidently, the country is getting the recognition that it deserves.

In early January 2011, Moody's Investors Service raised the Philippines' credit rating outlook to positive from stable, citing improvements in the country's balance of payments and gross international reserves. The upgrade came two months after Standard's and Poor lifted its own rating on Philippine debt to BB from BB- with a stable outlook, the country's first rating upgrade from the rating agency in 13 years.

An improving economy always brings new challenges. We expect other banks to get better as we get stronger. Pertinently, we anticipate more intense competition from global banks in a domestic market as they aggressively pursue activities to garner a bigger share of the lucrative retail market.

With increased competition, we are resolved to be even more responsive to the needs and expectations of our banking clientele. As such, one of the Bank's prospective thrusts in the near term will be to develop products and services that are technologically driven without sacrificing cost effectiveness.

To sustain our growth, we shall also work towards a sustainable multi-stream income base, which will enable the Bank to develop more than one business and better secure its financial position. Of course, key drivers will still be consumer lending and corporate banking where we made significant strides the previous year. The development of a multi-stream income base should well position the Bank when it starts to operate as a universal bank.

Human resources, our most valuable asset, will remain a major emphasis in 2011. A major challenge is how to develop our people. We are looking at establishing an EastWest Academy to provide our people the training they will need to be able to function more effectively.

To move closer to fulfilling our vision of becoming a world-class bank anchored on service excellence for our chosen market, we need to focus and we need to differentiate. Focusing means choosing the markets we want to serve and how we want to serve. At the same time, we want to differentiate ourselves in serving our chosen markets.

The gains we achieved in 2010 were the end result of the dedication demonstrated by our employees and the faith and confidence you have entrusted to the Bank. On behalf of the Board of Directors, Management and Staff, we thank you for your unwavering support and valuable contributions that made 2010 a record-breaking milestone. We look forward to more landmark achievements and a better year in 2011.

JONATHAN T. GOTIANUN
Chairman

In the face of a record-breaking year, we felt it was time for the Bank to reflect on its aspirations and translate all these into a refreshed and vibrant EastWest Bank brand. To this end, we reviewed the Bank's brand value proposition and came up with a brand development model that reflects not only our successes but also our own internal transformation.

EastWest Bank breaks through in 2010

EastWest Bank President and CEO sees the breakthrough in 2010 as the result of improving economies of scale, the focus on high margin consumer and middle market segments, good deposit cost structure and improving macro economic conditions.

How did the banking sector perform in 2010?

The year 2010 is one of the best years we have seen for the banking industry. Commercial and universal banks posted the highest improvement in operating results, measured in terms of return on assets and return on equity. Asset quality improved, loss provision levels were healthy, and capital adequacy ratios were safely above the minimum set by the central bank.

In one angle, 2010 put a definitive end to the lingering effects of the 1997 Asian Financial Crisis. While the Philippines was the least affected by the crisis, it was the last to recover because our banking sector, unlike that of our Southeast Asian neighbors, was not bailed out by the government. It is unfortunate because the banking system is at the center of the economic equation. If banks are not able to do its central role to allocate capital in the economy, meaning if banks are not lending, then growth in economic output slows and job creation stalls. Notice the anemic, if not negative inflation adjusted growth in bank credit since the crisis until the latter part of the last decade. And see likewise the sub-optimal GDP growth during that period.

We are past all that now. And last year we saw the eagerness of banks to lend as reflected in the healthy credit expansion.

Given that background, how did EastWest Bank perform in 2010?

We did pretty well. Net income almost tripled last year, to Php 1.81 billion from Php 621.7 million in 2009. Total assets grew by 12% to Php 83.8 billion. We are proud to see EastWest register the second highest Return on Equity at 19.8% and Return on Assets at 2.34%. The timing could not have been better. The significant improvement in the country's economic outlook came as the Bank was starting to see the results of its revitalization program

Sometime early 2006, the Board decided that it wanted to see a more relevant EastWest. By 2007 the program was set in motion. The Board beefed up the management team, and the stockholders infused a total of Php 4.5 billion in fresh capital in 2007 and 2009. The executive team then carried out the Board's mandate. We cleaned up the balance sheet and fully provisioned impaired assets. We proceeded to execute the Board's ambitious expansion program, further adding executive talents, expanded the branch network, and improved the IT infrastructure. We reviewed our human resource management practices to attract and retain good people.

In the four years between 2007 and 2010, EastWest outgrew the industry by a factor of three times. Total assets, loans, and deposits grew by 30%, 31%, and 29% respectively compared to the industry's growth of 11%, 12% and 12% correspondingly.

Of course, the 2010 results were bolstered by the favorable economic condition. We got our fair share of trading revenues from the drop in interest rates, just like most of our competitors. We are happy though that EastWest achieved significant improvement in its core banking business of loans and deposits. We estimate that if we net out trading profits, EastWest would still have registered above industry ROE and ROA.

In which areas was growth most remarkable?

In Eastwest, we like to measure our achievement in terms of improvements in our annuity income from loans and deposits. By annuity income, we mean recurring income. We believe that this measure defines the long run success or failure of a commercial bank. Of course, we will not be shy to grab opportunities to make money from currency and fixed income securities trading. It's just that we are 'old-fashioned' and remain fully convinced that the peg in commercial banking are loans and deposits.

By this measure, we are happy to note the robust growth in net interest income and fees. Our total operating income grew by 36% to Php 7.4 billion while net interest income increased by 22% or from Php 3.5 billion in 2009 to Php 4.3 billion in 2010. The growth in net interest income is significant because this happened in the face of declining interest rates, which put a lot of pressure on our interest income.

We also made improvements in our deposit cost structure. Our deposits grew but interest expense went down, and we saw an increase in low-cost funds in proportion to high-cost funds. This, and our consumer loan portfolio, has given EastWest one of the highest net interest margins on average earning assets in the industry at 6.05%.

On the other hand, our fees and other income, excluding trading, increased by 29% to Php 1.6 billion. This comes mainly from the continued expansion of our customer base.

Compared to 2009, our total expenses grew at a slower pace by only 17%. Considering that expenses have a lower base, you could see the dramatic productivity gains. We are happy to note that Compensation registered a hefty 30% increase as we continued to improve our compensation levels and set aside a significant amount for the bonus program.

Where did most of the growth come from?

We expanded our loan portfolio by a good 22% even as we made sure that our balance sheet remains liquid and our credit risk manageable. Our fixed income securities portfolio and other liquid assets continued to be a significant 45% of the balance sheet. Although consumer loans expanded only by 5%, it still comprised 50% of the total loan portfolio. Our credit card receivables registered the second biggest growth in the industry in peso terms. We know we could do better in auto and mortgage than the "flattish" growth we had in 2010. We are making adjustments to have faster growth.

We continue to expand our branch network. Last year, we opened 28 more branches, bringing our total branches to 113 by end 2010. Of course, this number is still relatively small compared to our competitors but significant enough for EastWest to improve its national footprint. We have more to do to improve this footprint though.

Having said all these, at its core, we believe it's the people we have in the EastWest organization that drove our growth. We are proud of the progress our people have accomplished.

A mood of optimism seemed to permeate the business community and the economy in 2010. Did this have a bearing on your performance? How do you see this affecting the Bank's plans and performance in 2011 and beyond?

Yes, it most definitely had a bearing. The palpable optimism translated itself into a year where we saw the fastest growth in corporate and consumer loans in years. We saw the biggest leap in auto sales at 27%. Mortgage and real estate had good growth numbers. Overall, the banking industry's loan portfolio grew by 9%. With growth and optimism, we also saw less bad loans. And these, to a good extent were favorable tailwinds that speed up our growth.

Since about a couple of years back, we were already bullish on the Philippines. This perhaps explains why we won the bidding for AIG PhilAm Savings Bank. We reckoned that leverage in the economy, both on the corporate and consumer segments were low by any standard. When you have a commercial banking industry with a Loan-to-Deposit ratio of only around 60%, Equity-to-Asset of not even ten times, you know that there is a lot of room for expansion without the risk of creating a bubble.

We are however aware of the crises in Europe and the lethargic US economy. We are carefully watching its impact on the domestic economy. All told, we remain fundamentally bullish on the country. The prevailing low leverage plus the renewed sense of optimism in the country are excellent condiments for economic expansion. While this will be tempered by the uncertainties in the major western economies, we believe in balance, that the risk-reward equation remains favorable.

In practical terms, this means that we will continue our expansion programs. We have planned significant increases in our consumer and corporate loan portfolios, and to open more branches. This year, we have also started the groundwork for a major rebranding program to better communicate what we are now to the banking public.

We believe that the favorable local economic condition will continue for at least three years. Then we assess what happens after that.

What else do you expect from the government?

If the president is able to deliver his anti-corruption platform, then that will really be a big thing. Businessmen just want clear rules and fairness in the execution of policies. Corruption distorts the rules and adversely affects the workings of competitive markets. It will also help everyone if the government is able to ensure peace and order across the land. In some ways, the president is fortunate. Given the experiences of the past, people have not really set very high expectations.

What advantages and benefits will be leveraged from the Bank's newly-acquired universal bank status?

A universal banking license gives a bank flexibility to pursue a wider array of business possibilities. It allows the holder to engage in non-allied undertakings, leasing, and investment banking. We are interested to do leasing and some investment banking. It's really to round up our product offerings.

We are also aware that there is a segment in the market who believes that universal banks are more stable and stronger. I know this is not necessarily true, but that is the perception. With the unibank license, we will at the very least, benefit from this perception.

On another plane, I think it is good for our internal organizational psyche. Together with what our people have accomplished, the license is a powerful communication tool to instill in everybody's mind that indeed, EastWest is set to intensify its efforts towards its goal to be a more relevant participant in the banking industry.

Then again, we have yet to get the certificate from BSP. We still need to fulfill two conditions. One of that is to have 10% of the minimum amount of capital for a universal bank license to be publicly-owned. That is only around Php 500 million. We are currently working on it.

What is the timeline for the public offering?

We definitely will do an IPO. It is part of our growth plans. Our stockholders have said so in several occasions. It is a question of timing. The Bank is on a steep growth trajectory. It might not be too fair for our shareholders if we go to the market too soon. On the other hand, the stock market may boom. We need to balance these elements. We are also running a major branch expansion program. This may affect short term profitability because of the drag but it is long term positive as it set the stage for future growth. My assessment as of now is the IPO may happen anytime in the next three years.

What major challenges or barriers were hurdled in 2010, despite which the Bank performed to the extent it did in 2010? What are the challenges for 2011?

I believe that opportunities and challenges are all about people and organization. Conditions change and how an organization responds to the changes is a function of how well the executive team is able to assess the situation and how well the organization will respond to their assessment and courses of action. First thing is to see reality for what it is and then act on it. Both are big challenges. I always find the second, the execution part, more difficult. To 'motivate or arouse, organize, and mobilize the workforce for effective action are, in a nutshell, the central tasks of leadership. And that is not easy.

In the banking industry, we are faced with the challenge of shrinking spreads and intense competition. There is also much competition for talents among banks. Other industries, particularly the BPO industry are also competing for talents. As a result, compensation costs are escalating. We expect the situation to continue in the years to come.

With shrinking revenues and escalating costs, what is to be done? The obvious response is to grow and expand, and to improve scale and productivity while committing fewer errors and putting in place sound risk management practices. I can imagine many banks are thinking along the same lines. It is most likely that not everybody will be successful. I think the challenges and the resulting effects are what form the basis why many people are saying the industry will further consolidate. The cost consolidation from mergers and acquisitions is the compelling reason to do so. Of course, EastWest intends to be one of the consolidators.

To succeed, we need to optimize our natural strengths and minimize our weaknesses. We have to move faster. We have to communicate better. And we have to be more precise and avoid errors. And if we do commit an error, we have to react and correct it fast. Right now, you can say that we are like in a guerilla warfare phase. We choose market segments, products and delivery channels, we can do better with. We are building our strength. We are building our confidence. Soon enough, we will advance to 'conventional warfare', so to speak, and engage all competitors.

You had a healthy year in 2009 and you had a breakout year in 2010. How do you plan to sustain this performance in the next few years?

Indeed that is the big challenge. The challenge is how to build on our accomplishments. We are preparing for that. For instance, we have declared 2011 as an HR year. We have to do better in our human resource management particularly, talent management and training, rewards and recognition system, and more responsive organizational set-up. We have to engender a results oriented culture where people can develop and realize their potentials and at the same time encourage cooperation, teamwork, and make people understand the dependencies of the different units. We have to find ways to instill discipline and hard work and yet have a highly-engaged workforce where people enjoy doing their respective roles. If we can do that, not only will we sustain our growth momentum. We can accomplish anything.

In 2009, EastWest Bank had one of the highest NPLs. Was it still a concern in 2010? How did the bank manage it?

It was not a concern in 2009, much more in 2010. Looking at NPL as a single metric could be misleading. To be useful, it has to be seen in the context of the bank's strategy and tax position. I tell you, if we write off all the bad assets with 100% provisions, our NPL will be within the industry average. And that will not affect our income significantly as we have already booked as expense the amount of provisions. We have begun to write off bad loans but not everything yet. It was only in the last two years that we started doing meaningful write-offs. And a big part of the fully provisioned bad assets came from the clean up we did in 2006 and 2007.

We also note that we are in the consumer lending space where yields are much higher. What does it matter to have an NPL level of 6% when you are earning 20%? The important thing is to book provisions on all impaired assets. Any finance professional will tell you that the true test of asset quality is eventually seen in the ROA and ROE. And we achieved the second best ROE and ROA among universal and commercial banks in 2010.

What role will corporate governance play in your efforts to sustain growth and better serve your clients?

We are a big believer in corporate governance. In fact, we declared 2010 as a year of governance. By corporate governance we mean the roles performed by the control functions which include the Transaction Settlement Units, Controllership, Internal Audit, Compliance, and Risk Management. We look at corporate governance not just as something we need to comply with but as an integral part of our business strategy. Good corporate governance prevents losses and protects gains. It also avoids moral hazards. Viewed that way, good corporate governance is a positive Net Present Value Project, meaning it ensures the optimum operating results and long term viability of the business.

If one knows that he cannot cheat or that cheating and short cuts are frowned upon, the person will turn out for the better in the long run. It is like a student who knows he cannot cheat or copy from a classmate during examination. Knowing that, his only recourse is to study and work hard on his test. He will learn more by doing that. Those who are able to cheat or copy from classmates learn less, if at all.

Last year's annual report gave much importance to the Manifesto of Behavioral Norms. Do you give it the same importance now?

Definitely. The Manifesto is a concrete expression of the values that we want deeply embedded in the organization. If an organization is to be successful, there has to be a common framework. In business, we don't call it ideology. But it is something like that. It is a common set of values and beliefs that lays down the rules of engagement. It forms the bases of celebrated behavior. If we are able to foster a sense of commitment to and conviction in the Manifesto then we are on to something really big. We will have guideposts in what we do, and our people can move on their own and they will be guided accordingly. That is very powerful.

We recognize that we are a work in progress and there's a whole lot more to be done. A good number of our people are new. Our shared history is very short. The challenge is how to unite our people, and instill a common sense of purpose. The Manifesto is a big part of that effort.

What is the outlook for 2011? How do you see the economy, the banking industry and the markets moving?

As mentioned, we remain bullish this year. We expect to see a continuing improvement in the balance sheets of banks. Overall though, we expect the industry's profitability to be flat, if not lower. This is mostly due to the lower expected trading gains from fixed income trading. The positive spin to this is, the industry will have better quality earnings as banks continue to grow its loan portfolio and will be less reliant on volatile trading income.

Government may start to manage its spending and reduce the deficit. This is both good and bad. It may curtail short term GDP growth but set the stage for a more sustainable future growth. The external sector remains uncertain as the direction of the US recovery is very "iffy." Europe will take a bit more time to get out of its predicament.

In EastWest though, we are hopeful that the growth and income momentum will continue in 2011. There is an even chance for EastWest to repeat its accomplishments as one of the better performing banks. Of course, we are not certain about this and if we would not be able to accomplish this, it definitely will not be because of our lack of effort.

Any last few words?

On behalf of the management team, I'd like to thank our customers. Thank you very much for your continued support. Our industry-beating operating results would not have been possible without you. We can only repay you by trying even harder to serve you better for your banking needs. We will always be mindful to be worthy of your trust and confidence.

Mabuhay!

Robust growth and expansion marks Bank performance across all business units

IN 2010, THE PHILIPPINE ECONOMY posted its highest growth rate in more than two decades, surpassing government economic targets. The banking sector strengthened, with most banks exceeding the 10% capitalization requirement imposed by the BSP.

Against the backdrop of rapid economic recovery and robust business development in the banking industry, EastWest Bank manifested an impressive performance which is exhibited across all of its business units.

BRANCH BANKING

In 2010, EastWest Bank implemented four key initiatives to boost its branch banking business and reach new markets: expansion of its geographical presence; enhancement of customer transaction points; improvement on products and services; and continuous training and development of branch personnel.

The Bank opened 28 new branches during the year, bringing its total network to 113. The expanded network allowed for better deposit-generation activities; effectively contributing to an 11% rise in the Bank's total deposits year-on-year. To complement its branches, 29 new automated teller machines (ATM) were deployed in both offsite and onsite locations,providing clients with secure, accessible and convenient banking anytime. As of year end, the Bank's total ATM reached 118.

Online banking services were expanded to include balance inquiry, bills payment and fund transfer. The Bank instituted improvements on its Internet banking platform. In terms of enhanced convenience, the Bank added 35 new billers to its existing list and commenced with the auto enrollment of newly-activated credit card accounts.

For its Cash Management business, EastWest Bank generated Php 7.2 billion in volume, a hefty 38.46% surge from the previous year's level. Aside from active branch support, the remarkable performance came as a result of the Bank's initiatives to upgrade its payroll management system which now includes an innovative 30-day trial feature that allows prospective clients to try out the product.

In keeping with its frontline functions, the branch banking group attended the enhanced branch banking operations training program. The 12-day program, which was institutionalized in 2010, aims to equip branch staff with a strong foundation on customer service excellence and to sharpen their knowledge on the Bank's product and service offerings.

CONSUMER LENDING

The Bank's consumer lending business capped the year with a total loan portfolio of Php 21.2 billion, as it capitalized on increased borrowings which was triggered by the positive economic scenario in 2010.

EastWest continued to sustain its growth momentum in the credit cards-issuing business, posting a 23% growth in 2010 for its cards-in-force, one of the highest in the industry. As of year-end, the Bank's credit card base reached 700,000, which allowed it to corner 10% of the entire market. This has elevated the Bank's industry ranking to fifth by the end of 2010. Total credit card receivables, likewise, posted a 20% growth by year-end.

With respect to product innovation, EastWest Bank launched two (2) new card variants in 2010, namely the EastWest Bank Platinum MasterCard, tailor-fitted for high net-worth individuals, and the LausAutoGroup Visa, which offers LausAutoGroup clients a 7% rebate for fuel purchases at gas stations nationwide. The EastWest Bank Platinum MasterCard was a finalist for the Most Effective Card Marketing Program award at the 2010 MasterCard Hall of Fame Awards held last December 2010 in Hong Kong.

The Bank also continued its relationship-building effort with merchants and offered more discounts and privileges, coupled with installment payment schemes. Some of the Bank's premier partner brands for 2010 were San Miguel Foods' Monterey Meatshop, Red Ribbon, Nike Park, Timex and Greenwich. The 0% installment facility, which is continuously offered by around 2,000 partner merchants, was aggressively promoted along with other programs, such as Balance Transfer, Insta-Cash, and Convert-to-Installment facilities.

For EastWest Bank's Auto Loan business, 2010 was a landmark year. The Bank registered solid performance, as the sixth overall in the industry at the end of the year. For year 2010 alone, its auto loan bookings rose by over 60% year-on-year.

Aside from operational efficiency and system enhancement, the Bank pursued advertising and promotional efforts to drive its auto business. The Auto Loans Sales Group continues to support in-dealer financing promos of partner auto dealers. And, in the last quarter of the year, a major campaign, the Ford Fiesta Free iPod promo was launched. EastWest Bank also organized a number of automotive fairs, dubbed "Easy Wheels Bazaar," showcasing the latest models from various car manufacturers. Moving forward and to sustain this momentum, the Bank will focus on expanding its business centers in key cities nationwide.

The Mortgage Loans Group was re-organized to gear up for an aggressive expansion. Initially, the Bank launched the Tiger 8 Program, which charged interest rate as low as 7.5% for one year. Moving forward, EastWest Bank is looking at further strengthening its partnership with Filinvest Land, Inc., implementing aggressive marketing

programs and launching new product variants.

CORPORATE BANKING

EastWest Bank's corporate lending initiatives broke new heights as its corporate loan portfolio grew solidly by 61% to Php 19.05 billion. This was achieved as the Corporate Banking Group strengthened its account management system, deepened its existing client relationships and established new partnerships. In collaboration with the Credit Policy and Review Division, the Bank further improved its Internal Credit Risk Rating System to enhance credit quality monitoring. As a result, the overall weighted portfolio credit rating improved.

During the year, EastWest Bank established partnerships with institutions such as the National Food Authority. The Bank also participated in various loan syndications of some of the big names in Philippine business. In addition to these, the Bank also continued to grow its agricultural and SME loans. The Bank continued to work on its legacy NPL accounts and intensified collection efforts. As a result, the Bank collected Php 340 million of loans classified as NPLs. NPL to total loans of Corporate and Small Business Lending deceased to 4.94%. Loan losses for these NPLs are adequately provided for, with NPL coverage even exceeding 100% despite the fact that some of these loans are secured by collaterals. The Bank believes that it has fully provisioned expected losses from its NPLs and expects no further material losses from the portfolio.

TREASURY

The year 2010 was a very encouraging year for the Bank's treasury business. The global financial turmoil experienced during the previous years abated, renewing local as well as foreign investor confidence. Inflation rates remained subdued while interest rates were relatively steady throughout the year. On the other hand, inward remittances from Overseas Filipino Workers rose by 8.1% whereas Gross International Reserves grew sharply by 40.9%. Thus, EastWest Bank's Treasury Group took advantage of the favorable fiscal scenario during the period, allowing it to post a net trading and investment gain of Php 1.07 billion by end-2010.

To diversify its income streams, the Bank also increased its exposures to non-Philippine credits

to benefit from lower volatility. In terms of its investment portfolio, the Bank still remained mostly exposed to the Republic of the Philippines in line with the renewed investor confidence in the Philippine economy as well as its credit strength. In view of developments in regulatory requirements, the Treasury Group worked in close collaboration with the Risk Management Division to strengthen its risk monitoring and control measures by regularly reviewing and updating its market risk limits.

SUPPORT INITIATIVES

Not to be overlooked as a pivotal driving force in EastWest Bank's outstanding 2010 performance are the corporate support units of the Bank, specifically the Human Resources Group, the Information Technology Group, and the Bank Marketing and Corporate Communications Division. These groups were at the helm of attracting new talents and developing human capital efficiency; improving Information Technology (IT) systems and infrastructure; and instituting extensive product marketing schemes as well as corporate culture- and image-building programs.

Human Resources

Consonant to EastWest Bank's operational growth in 2010 was its intensified recruitment program to infuse fresh talents into the organization. As a result, 819 new employees were added to the Bank's growing workforce during the year; actively sourced by the Bank from major job fairs and the existing applicant referral scheme.

In order to seamlessly inculcate the corporate values of EastWest among its new recruits, the Training Department of the Human Resources Group sustained its active implementation of the New Employees' Orientation Program (NEOP). NEOP is specifically intended to familiarize new employees with EastWest's history, Vision & Mission, organizational structure, and Manifesto of Behavioral Norms, among others. In 2010, around 20 batches of new employees attended this mandatory course.

Furthermore, with regard to human capital development, the Human Resources Group fervently executed a number of competency-enhancing programs, namely: Branch Officers Development Program, Account Officers Development Program, Branch Heads Development Program, Unit Investment Trust Fund Training, Call Center Phone Banking, Basic Business Communication Training, and Sales Training Series, among other courses. In addition to these, EastWest bolstered its branch personnel development program called Enhanced Basic Branch Operations Training to raise the level of aptitude among branch staff vis-à-vis customer service and product knowledge. And to complement these in-house training initiatives, the Bank sent select officers and staff to external seminars that tackled various important areas like sales and marketing, customer service, project management and personality development, to name a few.

As the Bank looks ahead toward greater gains, the Bank will continue to harness the full potential of its human resources through specialized training programs designed to address the specific learning requirements of its employees.

Information Technology

EastWest Bank recognizes the importance of information technology (IT) in improving operational efficiency, service delivery, and, ultimately, customer experience. Thus, for 2010, the Bank invested heavily on beefing up its IT system.

Most noteworthy, EastWest acquired softwares to improve the Bank's capabilities in providing enhanced loan products, and better service through streamlined loan application processing. Additionally, the Bank purchased a robust software-based transaction processing engine to handle multi-delivery channel solutions such as ATM operations, retail internet banking, phone banking, and bills payment engine. On backroom operation, EastWest Bank purchased an enterprise content management solution to facilitate workflow, simplify processes, and improve overall efficiency.

All told, these system improvements were undertaken by EastWest Bank in view of its vision to become a world-classs bank that is anchored on service excellence.

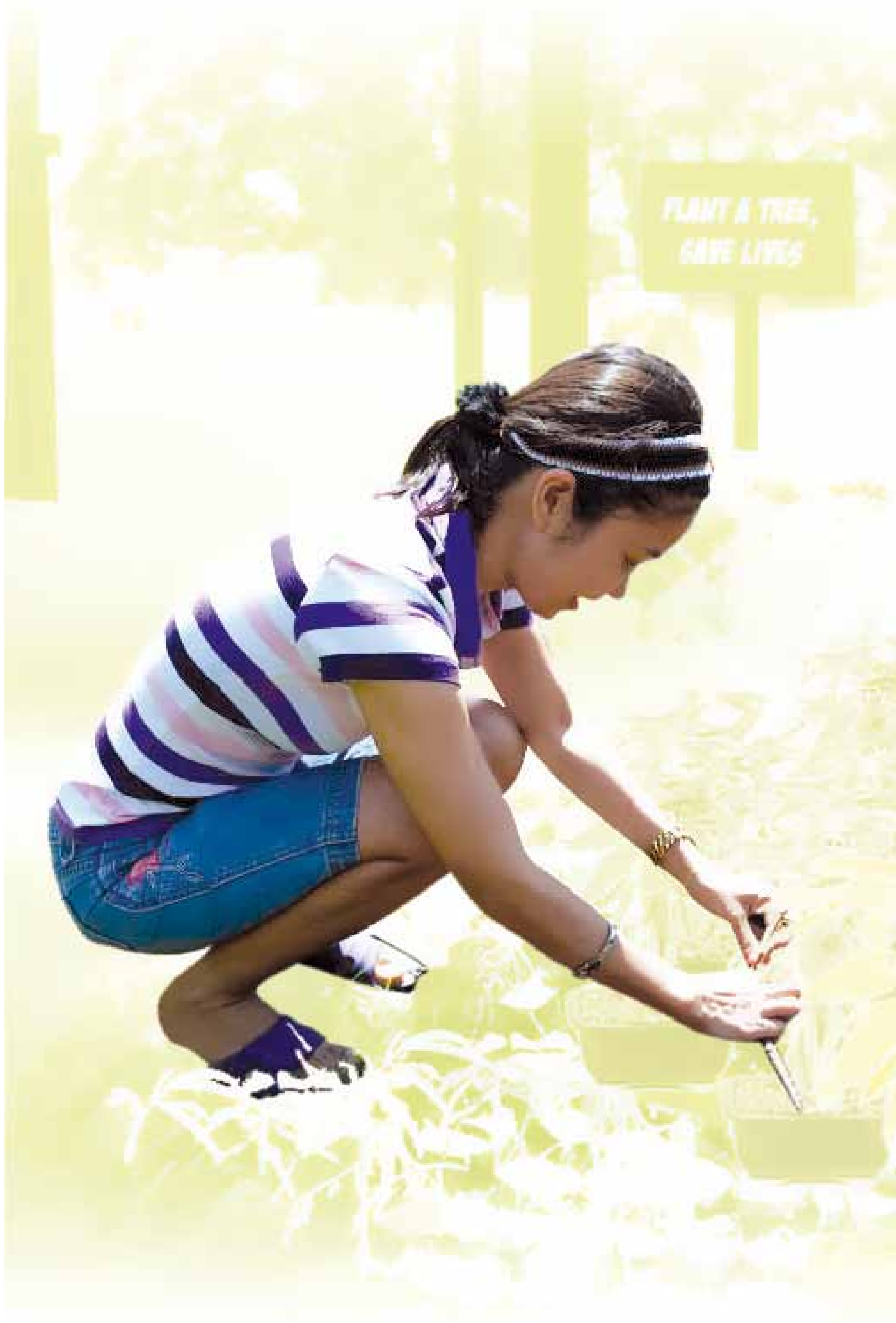
Marketing and Communications

Complementing EastWest Bank's efforts in gaining record breaking milestones in 2010 was its aggressive marketing and communications initiatives to keep its key publics well-informed and up-to-date on the Bank's programs as well as recent developments. Specifically, the Bank embarked on vigorous product promotional undertakings, institutional marketing and internal communications activities. The Bank soon reaped the benefits of strategic communications through elevated product awareness, positive image perception, and substantial expansion in its core businesses.

At the forefront of the Bank's communications roadmap was laying the cornerstone for EastWest's institutional rebranding program. At the initial phase of the project, customer perception was probed in correlation with the Bank's Corporate Vision through brand audit, focus group discussions, and customer interviews. This set-off the subsequent methodologies that defined the brand-building directions of EastWest Bank; with the ultimate objective of developing a well-positioned brand image that evokes emotional and intellectual appeal to the Bank's principal target market.

Moreover, the public was kept apprised throughout the year as to the Bank's rapid network expansion and promo offerings through the EastWest Bank website, which was given a fresh, new look at the start of the year. Updates on the Bank's programs and initiatives were likewise released to the media.

Further, in line with its mandate to manage the Bank's reputational risk,



Marketing Communications Department regularly monitors the media, principally the broadsheet, for significant news, positive or otherwise, about the Bank. Likewise, notable developments about the Bank, e.g. financial performance, material transactions entered into by the Bank, major business ventures, etc., that merits public knowledge are duly disclosed by Marcomm in close coordination with the Bank's Investor Relations Office and Legal Division as well as the Investor Relations Office of Filinvest Development Corporation, parent company of EastWest Bank.

As EastWest Bank moves into another year, it plans to continue harnessing the power of integrated marketing communications and branding as a vital component of its overall operations. As such, the Bank has poised itself for bigger gains and improved status in the industry.

CORPORATE SOCIAL RESPONSIBILITY

EastWest Bank remained committed to strengthening its ties with the communities it serves through its corporate social responsibility undertakings. In August, bank employees participated in a tree-planting activity held in the La Mesa Eco Park in Quezon City. The park is the primary source of drinking water of 12 million Metro Manila residents. Dubbed "Go Green", EastWest Bank's participation solidified its pledge to take part in the worldwide crusade to mitigate and reverse the effects of global warming.

Managing risks at the forefront

Risk Management Philosophy

Risk management is at the core of EastWest 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 organization. Revenue goals are incorporated in the business and financial plans, putting emphasis on the identification and quantification of risks attendant to its various revenue activities. On the other hand, at portfolio and transaction levels, operating and reporting processes throughout the Bank are designed to take on transactions and/or positions within its risk tolerance.

While processes, roles and responsibilities continue to evolve and mature, the Bank continues to enhance its risk management process by focusing on clarity of roles and accountabilities, escalation of issues, aggregation of risk and data across the enterprise, and effective governance characterized by clarity and transparency.

- *Risk identification:* The Bank's exposure to risk, through its daily business dealings, including lending, trading and capital markets activities, is identified and aggregated through the Bank's risk management infrastructure. Potential losses that could arise from specific or unusual events while managing risk positions are communicated to Senior Management, the Risk Management Committee (RMC) and the Board of Directors (BOD).

- *Risk measurement:* EastWest Bank measures risk using a variety of methodologies, including calculating probable losses and value-at-risk (VaR), and by conducting stress tests. Measurement models and related assumptions are reviewed and validated to ensure risk estimates are reasonable.

- *Risk control/monitoring:* EastWest Bank's risk management policies and procedures incorporate risk mitigation strategies and include approval limits. These limits are monitored periodically. The introduced concept of Risk Assessment (includes risk metrics) reporting is a collaborative effort among business units, Business and Risk Analytics and Risk Management Division (RMD) aimed at improving communication of risks and RMD's oversight function of the Bank's risk activities.

- *Risk reporting:* Executed by line of business and on a consolidated basis, information is reported to management periodically. Consolidated data on the four major risk types identified in the business activities, namely credit, market, liquidity, and operational risks, are reported quarterly to the BOD, thru the RMC. Through the support of Business and Risk Analytics, the Bank continues to improve its risk reporting by providing timely business intelligence to fully support the whole risk management cycle.

Risk Governance

EastWest Bank's risk governance structure starts with each business or operating unit being responsible for managing its own risks. Each business unit, while working closely with RMD, is responsible for decisions regarding its business' risk strategy, policies and controls.

Overseeing the business and operating units are management committees and functional support units. The Executive Committee and Loan Committee approve risk-taking activities based on Board- approved lending authorities. The Asset and Liability Committee performs balance sheet risk management as well as oversees the Bank's liquidity risk, market risk and capital management. The Trust Committee, on the other hand, oversees the business and risk activities of the portfolio managed by the Trust Banking unit. The governance function is performed by the Compliance, Audit and Risk Management units, which report to the BOD.

Ultimately, however, the responsibility of overseeing and managing the Bank's affairs rests with the BOD.

Credit Risk Management

Credit risk is the risk to earnings or capital arising from an obligor's or counterparty's failure to meet the terms of any contract with the Bank, thus subjecting the Bank to the possibility of facing a financial loss. The risk may arise from lending, trade financing, trading, investments, and other activities undertaken by the Bank.

Credit risk organization

Credit risk management is overseen by the Chief Risk Officer and implemented within the lines of business. The Bank's credit risk management governance consists of the following functions:

- Establishing a comprehensive credit risk policy framework;
- Assigning and managing lending authorities in connection with the approval of all credit exposure;
- Monitoring and managing credit risks across all portfolio segments, including transaction and line approval;
- Managing credit exposures, delinquent loans and foreclosed assets; and
- Determining the allowance for credit losses and ensuring appropriate credit risk-based capital management

Risk identification

The Bank is exposed to credit risk through lending and capital markets activities. Credit risk management works in partnership with the business units in identifying and aggregating exposures across all lines of business.

Risk measurement

The Bank employs methodologies for credit risk measurement or estimates the likelihood of obligor or counterparty default. Methodologies for measuring credit risk vary depending on several factors, including asset type, risk measurement parameters (e.g., delinquency status and internal risk rating) and risk management and collection processes.

Using extreme yet realistic events, the Bank also subjects its portfolio to stress testing to identify reaction of sectors to extreme events, assess the sensitivity of credit factors to ensure appropriateness, support portfolio allocation decisions or strategy beyond normal current conditions,and evaluate potential capital requirements.

While processes, roles and responsibilities continue to evolve and mature, the Bank continues to enhance its risk management process by focusing on clarity of roles and accountabilities, escalation of issues, aggregation of risk and data across the enterprise, and effective governance characterized by clarity and transparency.

Risk control/monitoring

The Bank developed policies and procedures designed to preserve the independence and integrity of the approval and decision-making process of extending credit, and to ensure accurate credit assessments, appropriate approvals, regular monitoring and active management at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for managing distressed exposures.

Risk control/mitigation

To protect against exposure to various counterparties, the Bank has established a number of measures that would aid in ensuring that the impact of adverse conditions on the Bank would be offset or reduced. Such measures include monitoring and limiting credit concentration, evaluating collaterals and credit enhancements, maintaining credit quality with the aid of risk ratings, and monitoring of loan performance via the regular impairment testing process.

Risk reporting

To enable monitoring of credit risk and decision-making, aggregate credit exposure, credit quality forecasts, concentration levels and risk profile changes are regularly reported to Senior Management. Detailed portfolio reporting of industry, customer, and product concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by Senior Management at least on a quarterly basis. Credit risk trends and limit exceptions are also discussed with Senior Management.

The Bank's risk management initiatives remain consistent with its objective of risk-based performance measurement, commonly known as Risk-Adjusted Performance Measure (RAPM).

Market Risk Management

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.

RMD works in partnership with the Treasury Group to identify and monitor market risks throughout the Bank, as well as to define market risk policies and procedures.

The management of market risk seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and make the Bank's market risk profile transparent to Senior Management, the BOD and regulators.

RMD is responsible for the following functions:

- Establishment of a comprehensive market risk policy framework;
- Definition and monitoring of limit breaches;
- Independent measurement, monitoring and control of business segment market risk; and
- Performance of stress testing and quantitative risk assessments.

Risk identification and classification

Treasury is responsible for the comprehensive identification and verification of market risks. The Bank's highest concentration of market risk is in its debt securities position, largely government issues, and some exposure in foreign currency holdings.

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 Value at Risk (VAR) methodology which reflects the interdependency between risk variables. Balance sheet exposures are managed and monitored using sensitivity analyses.

Risk measurement

No single measure can reflect all aspects of market risk. The Bank employs various metrics, both statistical and non-statistical, which includes VaR, Earnings-at-Risk (EaR), interest rate sensitivity analysis, and foreign exchange risk.

These measures provide granular information on the Bank's market risk exposure. They are aggregated by line of business and by risk type, and are used for monitoring limits, one-off approvals and tactical control.

Risk monitoring and control

Market risk is primarily controlled through a series of limits. Limits reflect the Bank's risk appetite in the context of the market environment and business strategy. In setting limits, the Bank takes into consideration factors such as market volatility, product liquidity, business trends and management experience. Senior management, including the Chief Risk Officer, is responsible for reviewing risk limits on an ongoing basis. The Treasury Group is responsible for adhering to established limits, against which exposures are monitored and reported by RMD in a timely manner.

Limits maintained by the Bank include the Market Risk Limit, which places a ceiling on the loss exposure based on the prevailing trading outcomes and 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 also employs Modified Duration Limit to manage the sensitivity of its interest rate-sensitive portfolio.

Risk reporting

Results of limits monitoring and noted excesses, if any, are reported daily to Senior Management. Market risk exposure trends and stress-test results, meanwhile, are reported quarterly through the RMC.

Liquidity Risk Management

The ability to maintain a sufficient level of liquidity is crucial to EastWest Bank, particularly the ability to maintain appropriate levels of liquidity during periods of adverse conditions. EWB's primary sources of liquidity include a diversified deposit base and access to the unused credit facilities. The Bank's funding strategy is intended to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities during normal and stress periods.

The Bank monitors liquidity trends, tracks historical and prospective on– and off–balance sheet liquidity obligations, identifies and measures internal and external liquidity warning signals to permit early detection of liquidity issues, and manages contingency planning including identification and testing of various company-specific and market-driven stress scenarios.

The availability and cost of financing are influenced by credit ratings. It is the Bank's objective to maintain high-quality credit ratings. Rating reduction could have a potential adverse effect on the Bank's access to liquidity sources. It can increase the cost of funds, trigger additional collateral or funding requirements and decrease number of counterparties willing to lend to the Bank.

Critical factors in maintaining high credit ratings include a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources and disciplined liquidity monitoring procedures.

Risk identification

Liquidity risk is the risk that sufficient funds are unavailable to adequately meet all maturing liabilities, including demand deposits and off-balance sheet commitments. It is the potential inability to meet the Bank's contractual and contingent financial obligations as they fall due. EastWest Bank ensures adequate funding for its businesses by analyzing and monitoring its liquidity risk and defines excess liquidity as readily available assets, limited to cash and high-quality liquid unencumbered securities. Liquidity risk management activities are centralized within the Treasury Group.

Risk measurement

Various tools, which together contribute to an overall Bank-wide liquidity perspective, are used to monitor and manage liquidity. These include: (i) analysis of the timing of liquidity sources versus liquidity uses (i.e., funding gaps) over periods ranging from one month to one year; (ii) management of debt and capital issuances to ensure that the illiquid portion of the balance sheet can be funded by equity, long-term debt and deposits the Bank believes to be stable; and (iii) assessment

of the Bank's capacity to raise incremental unsecured and secured funding. RMD periodically performs simulated stress tests that evaluate the Bank's ability to withstand a prolonged liquidity problem.

Risk control/monitoring

Key management indicators along with recent utilization are included for management review. The Bank monitors Bangko Sentral ng Pilipinas (BSP) required Deposit Reserve Ratio limit at 19%. Actual Loan to Deposit Ratio is compared relative to budget/forecast. The Bank also monitors its Foreign Currency Deposit Unit (FCDU) asset cover and FCDU Liquid Asset, as required by the BSP. The foreign currency deposit and expanded foreign currency deposit systems shall maintain at all times a 100% cover for foreign currency liabilities. Furthermore, at least 30% of the cover's requirements for foreign currency liabilities in the FCDU/ Expanded Foreign Currency Deposit Unit (EFCDU) shall be in the form of liquid assets such as foreign currency cash on hand and foreign currency checks.

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 in maintaining liquid assets. The Bank's principal source of liquidity is comprised of Cash and Other Cash Items, due from BSP, due from other banks and Interbank Loans Receivable and Securities Purchased under Resale Agreement 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.

A component of liquidity management is the Bank's contingency funding plan. A liquidity contingency plan is in place to ensure the Bank is prepared to combat any crisis situation. Its goal is to ensure sufficient liquidity during normal and stress periods.

Risk reporting

The Asset and Liability Committee (ALCO) meets regularly to analyze, review and formulate strategy to manage the balance sheet. The ALCO covers the following functions: identifying balance sheet management issues; review of deposit pricing strategy and liquidity contingency plan for the Bank; managing liquidity risks and ensuring exposures remain within the Bank's tolerance levels; and diversification of funding sources in consideration of the Bank's asset profile and legal entity structure.

The Board approves EastWest Bank's liquidity policy and contingency funding plan. RMD, in its quarterly reporting to RMC, summarizes and reports all liquidity risk issues.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The operational risk framework likewise encompasses risks other than those discussed above, e.g. legal, reputational, and compliance risks.

Operational risk is inherent in each of the Bank's income generating business units and support activities. This risk can manifest itself in various ways and, if not appropriately mitigated, could result to huge financial losses or incalculable damage to the Bank that may also lead to potential lawsuits, reputational harm, and non-compliance with laws and regulations.

To monitor and control operational risk, the Bank maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment to keep operational risk at acceptable levels.

The Bank engages its employees in ensuring transparency of information, escalation of key issues and accountability for issue resolution.

For purposes of identification, measurement, monitoring, reporting and analysis, the Bank categorizes operational risk events according to the seven major risk event categories identified under the Basel II framework:

- Internal Fraud
- External Fraud
- Employment Practices and Workplace Safety
- Clients, Products and Business Practices
- Damage to Physical Assets
- Business Disruption and System Failures
- Execution Delivery and Process Management

Risk identification

Successful operational risk management lies heavily on the support and cooperation of every individual in the organization. Employees at all levels are enjoined to promote operational risk awareness. Thus, the Bank introduced a risk awareness program wherein business units utilize the Bank's standard Risk Identification and Control Self-Assessment (RICSA) process as a dynamic risk management tool. The goal of the self-assessment process is for each business unit to identify the key operational risks specific to its environment, assess the degree to which it maintains appropriate controls, and measure potential losses the Bank may be exposed to. Action plans are to be developed for issues identified. Business units are held accountable for tracking and resolving these issues on a timely manner.

Risk measurement

The data gathering activities, done through the risk awareness program to supplement crimes and losses reporting, are aimed at improving the Bank's risk measurement methodology using historical loss experience or existing controls and potential stress scenarios.

Risk monitoring

The Bank monitors operational risk events from crimes and losses data. It is analyzed both at a business unit level and by risk event type, enabling identification of the causes and trends associated with risk events faced by the business units. Such analysis is reported quarterly to the BOD through the RMC. Operational risk limits have been put in place for business units to monitor operational risks.

Audit alignment

Internal Audit utilizes a risk-based program of audit coverage to provide an independent assessment of the design and effectiveness of key controls over the Bank's operations, regulatory compliance and reporting. This includes reviewing the operational risk framework, the Bank's adherence to internal policies and procedures, effectiveness of the loss data-collection and reporting activities.

Risk reporting and analysis

Operational risk management reports include information about actual and potential operational loss levels. The reports provide a general idea of the Bank's operational risk exposures, enabling management to take corrective action in maintaining operational risk at acceptable levels.

Risk and Capital Management

The Bank's increasing risk-taking activities, as seen in the surge in its earnings and resources, translates to additional capital requirements for the Bank. Capital infusion by the Bank's stockholders and Tier 2 issuance provide the necessary leverage in terms of asset base growth.

By and large, risk management initiatives remain consistent with the Bank's objective of risk-based performance measurement, commonly known as Risk-Adjusted Performance Measure (RAPM). This measure allows for the comparison between return and allocated capital by adopting some form of risk adjustment based on the Bank's assessment of the riskiness of the business it has undertaken.

To ensure proper allocation of the Bank's capital relative to established internal capital requirement, which is approximated based on measured risk exposure, the Bank has established a more comprehensive capital management process, commonly known as internal capital adequacy assessment

process or ICAAP. RMD champions the ICAAP and provides guidance to all concerned units of the Bank in operationalizing the ICAAP. It has initially opted to adopt the Pillar 1 Plus approach.

In particular, the following are the additional risk areas that the Bank considers in determining its Pilar 1 Plus CAR:

- Risks not fully covered in Pillar 1: concentration risk and liquidity risk
- Risks not covered in Pillar 1: interest rate risk, compliance risk, strategic or business risk, and reputational risk

In general, the Bank's risk management process and framework is adequate in being able to manage its material losses. The Bank continues to enhance, develop, and employ the necessary risk management tools to include, among others, risk measurement models, risk limit systems, risk policies, and internal control systems in support of its day-to-day management of risk.

Since risk management is 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.

At the core of responsible governance are people

Corporate Governance and Compliance Philosophy

EastWest Bank commits to the highest ideals of Corporate Governance in conducting business safely and soundly. The Bank recognizes that at the core of responsible governance are PEOPLE -- those who govern and those who are being governed. The Bank respects the line of separation between governance and management. Thus, as ownership belongs to shareholders, governance is the responsibility of the Board of Directors (BOD), led by its Chairman, who is a non-executive director. Management is delegated to a team of officers led by the President/CEO. The Board and Senior Management keep in sight the welfare of its employees whose stable cooperation plays an important role in achieving the long-term success and performance of the Bank.

As a collegial body, the Board of Directors conducts its functions as a full board and through its committees. Board-approved Corporate Governance policies are contained in a Manual on Corporate Governance which is premised on the Corporate Code of the Philippines, Securities Regulations Code, 2009 SEC Revised Code of Corporate Governance and relevant provisions from the 2009 Bangko Sentral ng Pilipinas Manual of Regulations for Banks. These policies are made known to every member of the EastWest Bank organization.

EastWest Bank employees understand that Corporate Governance and compliance with regulations and standards of good practice is everybody's responsibility. Business Compliance Officers (BCO), leading each Business Cluster/ Group/Division and assisted by Deputy BCOs, partner with the Compliance Division in fulfilling the compliance responsibilities of everyone in the line.

The Bank, through its Human Resources Group, likewise ensures that all employees adhere to the highest standards of quality, honesty, transparency and accountability. As such, the Bank emphasizes these traits in its Code of Ethics. The said manual is immediately distributed to new employees. The Code of Ethics is likewise uploaded in EastWest Today, the Bank's Intranet portal.

To further emphasize its commitment to integrity, the Bank has initiated a program called EthicsDirect to encourage employees to report, in good faith, to Senior Management any misconduct within their respective business units. Specifically, EthicsDirect is a Program that protects in confidence the identity of the employee who disclosed the suspected offense within the organization.

Anti-Money Laundering

The Anti-Money Laundering Compliance system of the Bank through its governing principles and standards is primarily designed to protect EastWest Bank, its employees, products, services and operations from being used for money laundering purposes. In furtherance, EastWest Bank is committed to develop and implement an effective money laundering prevention program, take appropriate action on detected or potential suspicious activity, comply with applicable anti-money laundering laws and promote AML awareness among its employees.

Board of Directors

EastWest Bank is led by a Board of Directors consisting of nine members, four of whom are Independent Directors. All members of the Board and Senior Management attended the BSP accredited Corporate Governance training. Members of the Board of Directors are elected annually by the stockholders. Each is entitled to one vote and serves a term of one year and until the election of qualified successors. All Directors and Board Committee Chairs were present during the Annual Stockholders' meeting held on April 29, 2010.

The Board had 13 meetings in 2010. Below is the attendance performance of each member of the Board:

Director	Present	Absent
Andrew L. Gotianun	12	1
Jonathan T. Gotianun	11	2
Mercedes T. Gotianun	13	0
Lourdes Josephine T. Gotianun-Yap	12	1
Antonio C. Moncupa, Jr.	13	0
Paul A. Aquino*	13	0
Jose S. Sandejas*	12	1
Angelina Gutierrez*	12	1
Carlos L. Alindada*	12	1

*Independent Directors

EXECUTIVE COMMITTEE
Chairman: Jonathan T. Gotianun

The Executive Committee is empowered to approve and/or implement any or all corporate acts within the competence of the Board except those acts expressly reserved by the Corporation Code to the Board of Directors. The Committee also assumes the review and approval of bank-wide credit strategy, profile and performance. It approves the credit risk-taking activities of the Bank based on the established approving authorities as well as reviews and endorses credit-granting activities. The Committee meets weekly or as often as it may be necessary to address all matters referred to it.

CORPORATE GOVERNANCE AND COMPLIANCE COMMITTEE
Chairman: Paul A. Aquino (Independent Director)

Setting the tone for the Bank's Corporate Governance and Compliance Philosophy is the Corporate Governance and Compliance Committee. The Committee leads the Bank in defining Corporate Governance policies and attaining best practices while overseeing the implementation of the Bank's Compliance Program, Money Laundering Prevention Program and ensuring that regulatory compliance issues are resolved expeditiously. Added to its strategic governance role is the nomination function where it reviews and evaluates the qualification of individuals nominated to the Board as well as those nominated to other positions requiring appointment by the Board. The Committee is responsible for the periodic administration of performance evaluation of the Board and its committees. It conducts an annual self-evaluation of its performance in accordance with the criteria provided in the 2009 SEC Code of Corporate Governance. At the forefront of the implementation of its mandates is the Compliance Division led by the Chief Compliance Officer. The Committee, consisting of the Chairman of the Board and four Independent Directors, meets every two months. In 2010, all six meetings held were attended by majority of the members.

AUDIT COMMITTEE
Chairman: Carlos R. Alindada (Independent Director)

The Audit Committee oversees the institution's financial reporting and internal and external audit functions. It is responsible for setting up the Internal Audit Division, and for appointing an internal auditor and an independent external auditor who both report directly to the Audit Committee. It monitors and evaluates the adequacy and effectiveness of the internal control system in the Bank through the Internal Audit Division. The Internal Audit Division is independent of all other organizational units of the Bank as well as of the personnel and work it audits. It neither installs nor develops procedures, prepares records or engages in other activities which it normally reviews or appraises.

It functionally reports to the Audit Committee and administratively to the President/CEO as it provides independent, objective assurance and consulting services designed to add value and improve the Bank's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach in evaluating and improving the effectiveness of risk management, control, and governance processes. The Committee, which consists of four members, three of whom are independent directors, meets once a month.

RISK MANAGEMENT COMMITTEE
Chairman: Jose S. Sandejas (Independent Director)

The Risk Management Committee (RMC) assists the Board in managing the bank's risk-taking activities through policy institution and oversight. As defined in the Risk Management Charter, the RMC reviews and approves principles, policies, strategies, processes and control frameworks pertaining to risk management as well as recommends to the Board of Directors any necessary modifications or amendments to strategies and policies. Its functions include identification and evaluation of the Bank's risk exposures, estimating its impact to the organization and assessing the magnitude, direction and distribution of risks across the Bank, which it uses as basis in determining risk tolerances that it subsequently recommends to the BOD for approval. RMC reports to the BOD the overall risk exposures and the effectiveness of its risk management practices and processes while recommending further policy revisions when necessary.

The Risk Management Committee comprises four members of the BOD where all are non-executive directors and most are independent directors. Members possess adequate knowledge and understanding of the institution's risk exposures and expertise in developing appropriate risk policies and strategies. The RMC conducts quarterly meetings at a minimum with majority of the Committee members required to be present. In 2010, four meetings were conducted and attended by majority of the Committee members.

COMPENSATION COMMITTEE
Chairman: Lourdes Josephine T. Gotianun-Yap

The compensation committee is composed of five members including the President and one independent director. It ensures that the compensation policies and practices are consistent with the corporate culture, strategy and the business environment under which it operates. It evaluates and recommends to the Board incentives and other equity-based plans designed to attract and retain qualified and competent individuals. The committee meets at least once a year and provides overall direction on the compensation and benefits strategy of the Bank. The meeting was attended by all the committee members.

TRUST COMMITTEE
Chairman:
Jonathan T. Gotianun

The Board of Directors is responsible for the proper administration and management of trust and other fiduciary business. It may, however, delegate its authority through its Trust Committee which ensures that funds and properties held in trust or in any fiduciary capacity are administered with the skill, care, prudence and diligence necessary.

The Trust Committee, duly constituted and authorized by the Board, acts within the sphere of authority as provided in the Bank's By-laws and/or as may be delegated by the Board. It undertakes such responsibilities, but not limited to the following: 1) Acceptance and closing of trust and other fiduciary accounts; 2) Initial review of assets placed under the trustee's of fiduciary custody; 3) Investment, re-investment and disposition of funds or property; 4) Review and approval of transactions between trust and/or fiduciary accounts; and 5) Review of trust and other fiduciary accounts at least once every 12 months to determine the advisability of retaining or disposing of the trust or fiduciary assets and/or whether the account is being managed in accordance with the instrument creating the trust or other fiduciary relationship.

The Trust Committee also presides over the proper conduct of the trust's business, reviewing periodically the business development initiatives such as staffing and delineation of responsibility/accountability, proactive development and implementation of strategies for cultivating of revenue streams and cost management, and application and monitoring of the proper performance benchmarks. The committee composed of five members with only one independent director meets every two months.

EastWest Bank commits to the highest ideals of Corporate Governance in conducting business safely and soundly.

BOARD COMMITTEES

Board of Directors

Executive Committee

Chairman:
Jonathan T. Gotianun

Members:
Andrew L. Gotianun, Sr.
Mercedes T. Gotianun
Antonio C. Moncupa, Jr.
Lourdes Josephine T. Gotianun-Yap
Paul A. Aquino (ID)

Corporate Governance & Compliance Committee

Chairman:
Paul A. Aquino (ID)

Members:
Jose S. Sandejas (ID)
Angelina S. Gutierrez (ID)
Jonathan T. Gotianun
Carlos R. Alindada (ID)

Audit Committee

Chairman:
Carlos R. Alindada (ID)

Members:
Jose S. Sandejas (ID)
Lourdes Josephine T. Gotianun-Yap
Paul A. Aquino (ID)

Risk Management Committee

Chairman:
Jose S. Sandejas (ID)

Members:
Carlos R. Alindada (ID)
Lourdes Josephine T. Gotianun-Yap
Paul A. Aquino (ID)

Compensation Committee

Chairman:
Lourdes Josephine T. Gotianun-Yap

Members:
Mercedes T. Gotianun
Jonathan T. Gotianun
Jose S. Sandejas (ID)
Antonio C. Moncupa, Jr.

Trust Committee

Chairman:
Jonathan T. Gotianun

Members:
Andrew L. Gotianun, Sr.
Angelina S. Gutierrez(ID)
Antonio C. Moncupa, Jr.
Trust Officer

ID - Independent Director

BOARD OF DIRECTORS

BOARD OF DIRECTORS

ANDREW L. GOTIANUN, SR.
Chairman Emeritus

JONATHAN T. GOTIANUN
Chairman

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

MERCEDES T. GOTIANUN
Director

LOURDES JOSEPHINE T. GOTIANUN-YAP
Director

CARLOS R. ALINDADA
Independent Director

PAUL A. AQUINO
Independent Director

JOSE S. SANDEJAS
Independent Director

JUSTICE ANGELINA SANDOVAL-GUTIERREZ
Independent Director

ATTY. BENEDICTO M. VALERIO, JR.
Corporate Secretary

SENIOR MANAGEMENT


Antonio C. Moncupa, Jr.


Jacqueline S. Fernandez


Gerardo Susmerano


Renato P. Peralta


Ernesto T. Uy


Manuel Andres D. Goseco


Allan M. Tumbaga


Michael T. Medrero


Eric T. Macalintal


Felipe A. Ignacio, Jr.


Juanita Margarita O. Umali


Arnulfo V. de Pala


Grace N. Ang


Elaine Barredo


Randall Rogelio A. Evangelista


Patrick T. Uy


Ivy B. Uy


Gina Marie C. Galita


Renato K. De Borja, Jr.


Ma Edwina L.Pineda

ABOUT THE BOARD

EASTWEST BANK IS OVERSEEN BY ITS BOARD OF DIRECTORS (BOD) consisting of nine regular members and four Independent Directors. The members of the Board are elected annually by the stockholders and shall each serve a term of one (1) year until the election and qualification of a new set of BOD. Furthermore, the BOD shall elect among themselves a Chairman and a Vice-Chairman.

The Bank held 12 regular Board meetings from January to December 2010 and one (1) Special Board Meeting on March 9, 2010 or a total of 13 Board meetings during the year.

The current list of the members of EastWest's BOD is as follows:

ANDREW L. GOTIANUN, SR.
Chairman Emeritus

Mr. Andrew Gotianun Sr. has been serving as the Chairman Emeritus of the Bank since 1995. Concurrently, he is the Chairman Emeritus of the Board of Filinvest Development Corporation, Chairman of Pacific Sugar Holdings and ALG Holdings, Inc. He also worked for the Insular Bank of Asia and America from 1980 to1985 and for Filinvest Credit Corporation from 1970 to 1985. He is a graduate of San Beda College with an Associate Degree in Commercial Science.

JONATHAN T. GOTIANUN
Chairman

Mr. Jonathan T. Gotianun is currently the Chairman of EastWest Bank. Prior to his election as Chairman of the Board, he was Vice-Chairman and Director since 1994. Mr. Jonathan Gotianun holds a degree in Commerce from the Santa Clara University in California and a Masters in Management from Northwestern University in Illinois.

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

Mr. Antonio Moncupa Jr. has been the President & CEO of EastWest since January 1, 2007. He currently sits as Chairman of the BAP Open Market Committee; as Vice Chairman of Philippine Clearing House Corporation; and as Board Member of BAP, and Philippine Depository and Trust Company. Before joining EastWest, he was Chief Financial Officer of the International Exchange Bank. Mr. Moncupa holds a double degree in Economics and Accounting from the De La Salle University, and a Masters in Business Administration from the University of Chicago.

MERCEDES T. GOTIANUN
Director

Mrs. Mercedes T. Gotianun has been serving as a Director of EastWest since 1995. She is also a Director of Filinvest Development Corporation and Pacific Sugar Holdings, Chairman of Filinvest Land, Inc., and Vice-Chairman of Filinvest Alabang, Inc. on a concurrent capacity. Mrs. Gotianun holds a degree in BS Pharmacy (magna cum laude) from the University of the Philippines.

LOURDES JOSEPHINE T. GOTIANUN-YAP
Director

Mrs. Lourdes Josephine Gotianun-Yap has been a Director of EastWest since August 2000. She is the President of Filinvest Development Corporation, Filinvest Asia Corporation, Cyberzone Properties, Inc., and The Palms Country Club; and the Executive Vice President of Filinvest Alabang, Inc. Mrs. Gotianun-Yap holds a degree in Business Management from the Ateneo de Manila University and an MBA major in Finance from the University of Chicago.

CARLOS R. ALINDADA
Director

Mr. Carlos Alindada has been a Director of EastWest since April 2002 and a former Chairman and Managing Partner of SGV & Co., a former Director of the National Power Corporation and a former Commissioner of the Energy Regulation Commission. He graduated with a degree in Accounting from the University of the East, and an MBA in Corporate Finance from New York University. He also pursued an Advance Management Program at Harvard University.

PAUL A. AQUINO
Director

Mr. Paul A. Aquino is an Independent Director of the Bank since October 2009. Mr. Aquino is concurrently the Vice Chairman and Chief Executive Officer and a Director of the Energy Development Corporation; the President of Green Core Geothermal, Inc.; and the Honorary Consul of the Government of Malta. He is a graduate of BS in Electrical Engineering and a Masters in Business Administration from Santa Clara University in California. He was conferred Doctor of Management Science (Honoris Causa) by the Philippine School of Business Administration.

JOSE S. SANDEJAS
Director

Mr. Jose S. Sandejas has been serving as an Independent Director since 2002.Mr. Sandejas is formerly a Director of Benguet Consolidated Corporation, Petron Corporation, and the Board of Investments. He graduated with a degree in Chemical Engineering from the De La Salle University and pursued a doctorate degree in Materials Engineering from Rensselaer Polytechnic Institute

JUSTICE ANGELINA SANDOVAL-GUTIERREZ
Director

Ms. Angelina Sandoval-Gutierrez has been an Independent Director of the Bank since March 2009. She was the Associate Justice of the Supreme Court until her retirement in February 2008. She holds degrees from the University of Sto. Tomas (Bachelor of Laws) and the Harvard Law School (Constitutional Law and Advanced Constitutional Law). Ms. Sandoval-Gutierrez also completed the Art of Conducting Trial Management and Delinquency Control at the University of Texas (Dallas) and the University of Southern California (Los Angeles), respectively.

SENIOR OFFICERS

PRESIDENT & CEO
Antonio C. Moncupa Jr

EXECUTIVE VICE PRESIDENTS
Jacqueline S. Fernandez
Gerardo Susmerano

SENIOR VICE PRESIDENTS
Manuel Andres D. Goseco
Juanita Margarita O. Umali
Ernesto T. Uy
Ivy B. Uy

FIRST VICE PRESIDENTS
Renato K. De Borja Jr
Elisa O. Go
Vicente P. Ortuoste

VICE PRESIDENTS
Grace N. Ang
Elaine Barredo
Doli D. Cabahug
Mary Jane D. Caliwan
Alastair S. De Lara
Arnulfo V. De Pala
Efren O. Dela Cruz
Randall Rogelio A. Evangelista
Gina Marie C. Galita
Edgardo I. Isagon
Ma. Agnes E. Jazmines
Arlene D. Lamarroza
Jocelyn C. Legaspi
Jan Nikolai M. Lim
Joselito Abram M. Lojo
Eric C. Macalintal
Michael T. Medrero
Jocelyn T. Pavon
Renato P. Peralta
Isabel S. Pijuan
Ma. Edwina L. Pineda
Michael Albert R. Rallonza
Xavier C. Ramos
Raymond T. Reboredo
Ben Valentino U. Rodriguez
Renato Z. Sampang
Aylwin Herminia P. Tamayo
Allan John M. Tumbaga
Margaret S. Unson
Patrick T. Uy
Arlene S. Viernes
Alessandro L. Villaraza

PRODUCTS & SERVICES

DEPOSIT PRODUCTS

Passbook Savings
ATM Access Savings
Cool Savers
Dollar Savings
Regular Checking
ChequeMax
ChequeMax Rewards
Peso Time Deposit
Dollar Time Deposit
Secured Future Fund

CONSUMER LOANS

Home Loan:
- Lot Acquire
- Home Acquire
- Home Construct
- Home Improve
- Home Flex

Auto Loan
Salary Loan
Personal Loan

CREDIT CARDS

EastWest Bank Gold/Classic MasterCard and Visa
EastWest Bank Platinum MasterCard
EastWest Bank Dolce Vita MasterCard
EastWest Bank Practical MasterCard

CORPORATE CREDIT FACILITIES

Working Capital Requirements:
- Revolving Promissory Note Line
- Trade Check Financing Line
- Domestic Letters of Credit with Trust Receipt/Promissory Note Financing
- Import Letters of Credit with Trust Receipts/ Promissory Note Financing
- Documents Against Acceptances with Trust Receipt/Promissory Note Financing
- Open Account with Trust Receipt/ Promissory Note Financing
- Domestic Bills Purchase Line
- Stand-by Letters of Credit
- Export Financing
- Pre-settlement/Settlement Line

Omnibus Facility (incorporating all or some of working capital credit facilities)
Medium Term Loan
Long Term Loan
Project Finance
Purchase of Contract-To-Sell

TREASURY PRODUCTS

Foreign Exchange
Fixed Income
- PHP government and corporate securities
- USD government and corporate securities

TRUST PRODUCTS

Trusteeship Functions
- Personal Trusts
- Institutional Trusts

Agency Functions
- Investment Management Accounts
- Escrow
- Safekeeping

Unit Investment Trust Funds (UITF):
- Infinity Peso Money Market Fund
- Infinity Peso Intermediate Term Bond Fund
- Infinity Peso Long Term Bond Fund
- Infinity Dollar Intermediate Term Bond Fund
- Infinity Dollar Long Term Bond Fund

CORPORATE SUITE

Payroll Credit System (PCS)
Payroll Assist
Payroll Assist Plus
Bizcheque Plus
Cheque Prepare
Bills Collect
Cheque Depot
Corporate Net Access
SSS Payment Collections
Alternative Channels:
- Biller/Merchant Services
- Electronic Delivery Channels (POS/ Mobile Access)

EMERGING MARKETS BANKING

Post-Dated Check Discounting Line
Revolving Promissory Note Line
Term Loan

OTHER SERVICES

Access Banking
- ATM Access
- Net Access
- Mobile Access

Pay @ Store
Bills Pay
Collect@Site

BRANCH DIRECTORY

METRO MANILA

A. Bonifacio
442-1728 / 442-1802 / 442-1634
659 A. Bonifacio Avenue
Balintawak, Quezon City

Alabang Madrigal
850-8092 / 850-8093 / 850-8094 / 850-8095
G/F Philam Building, Acacia Avenue
Madrigal Business Park
Muntinlupa City

Amorsolo
887-6223 / 887-7368 / 844-1599
G/F Unit C, Aegis People Support Bldg.
Amorsolo Street, Makati City

Annapolis
722-6830 / 722-9088 / 705-1623
G/F, The Meridien Condominium
Building Unit 1A, 29 Annapolis Street
NorthEast, Greenhills

Anonas
434-0057 / 434-0058
94 Anonas Street corner Km. 6 Kamias
Quezon City

Antipolo
682-2251 / 682-2250
Molvina Compound, Marcos Highway
Barangay Mayamot, Antipolo City

Ayala Paseo
575-3029 / 575-3006 / 575-3323
G/F Philam Tower
8767 Paseo de Roxas, Makati City

Baclaran
851-3429 / 851-3488 / 851-3584
2/F New Galleria Baclaran Shopping
Mall, LRT South Terminal
Taft Avenue Extension, Pasay City

Bagumbayan
666-3963 / 911-3601 / 709-1729 / 709-1730
184-B E. Rodriguez, Jr. Avenue
Bagumbayan, Libis, Quezon City

Banawe
743-0775 / 412-1681 / 743-4715
G/F, PPSTA 1 Building
Quezon Avenue corner Banawe Street
Quezon City

Better Living
823-4280 / 823-4284
100 Doña Soledad Avenue
Betterliving Subdivision
Barangay Don Bosco

Binondo
247-3615 / 247-3708
UFH Building
459 Quintin Paredes Street
Binondo, Manila

C. Raymundo, Pasig
640-4206 / 640-5690 / 641-0607
No. 172 C. Raymundo Street
Maybunga, Pasig City

Congressional
926-6609 / 926-5934
Block 7, Lot 4A,
Congressional Avenue, Quezon City

Cubao
913-4730 / 913-5266 / 912-1816
G/F Prince John Condominum
291 P. Tuazon Avenue
near corner 18 Avenue
Cubao, Quezon City

Del Monte
367-1939 / 367-1822
271 Del Monte Avenue
corner Biak-na-Bato, Quezon City

Dela Rosa Pasong Tamo
864-0632 / 864-0633 / 864-0792
G/F Kings Court II Building
2129 Chino Roces Avenue
corner Dela Rosa Street, Makati City

Divisoria
244-9928 / 247-4307
802 Ilaya Street, Tondo, Manila

EDSA Kalookan
364-1858 / 364-1859 / 364-1860
490 EDSA, Kalookan City

Emerald, Ortigas
477-4975 / 477-5368 / 477-5371
G/F Hanston Building
F. Ortigas Street, Ortigas Center
Pasig City

Escolta
245-3983 / 245-3984
G/F First United Building
413 Escolta Street corner
Banquero Street, Binondo, Manila

Evangelista, Makati
846-8516 / 846-8517 / 846-9500
Evangelista Street corner
Mojica Street, Bangkal, Makati City

Festival Mall 1
850-3723 / 850-3606
2nd Level, Festival Supermall
Filinvest Corporate City
Alabang, Muntinlupa

Festival Mall 2
850-6461 / 842-5981
Level 1, Festival Supermall
Filinvest Corporate City
Alabang, Muntinlupa

BRANCH DIRECTORY

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

Governor Pascual, Malabon
332-9606 / 332-9441 / 351-7619
3315 Gov. Pascual Avenue corner
Maria Clara Street, Malabon City

Grace Park
364-9596 / 364-9576
896 8th Avenue corner
J. Teodoro Street, Grace Park West
Kalookan City

Greenhills
727-7629 / 721-9605
G/F ALCCO Building, Ortigas Avenue
Greenhills West, San Juan City

Intramuros
527-2604 / 527-2631 / 527-2627
G/F 104 B.F. Condominium
A. Serrano Avenue corner
Solano Street, Intramuros

Katipunan
913-2370 / 913-2398
132 Katipunan Road
St. Ignatius Village, Quezon City

Las Piñas
873-1925 / 873-5090
Alabang Zapote Road corner
Crispina Avenue, Pamplona III
Las Piñas City

Legaspi Village
519-7398 / 519-8125 / 519-1785
G/F Libran Building, Legaspi Street
corner V.A. Rufino Avenue
Legaspi Village, Makati City

Main-Ayala
575-3888 local 8309, 8404, 8402, 8403
G/F PBCom Tower, 6795 Ayala Avenue
corner Herrera Street
Salcedo Village, Makati City

Makati Stock Exchange
659-8020 / 659-8625 / 659-8626
G/F Makati Stock Exchange Building
Ayala Triangle, Ayala Avenue
Makati City

Malabon
283-9535 / 283-9536 / 283-9403
376 F. Sevilla Boulevard
Malabon City

Malate
404-0536 / 404-0537
1991 Esperanza Osmeña Building
A. Mabini Street, Malate

Mandaluyong
534-7958 / 534-3942
G/F Sunshine Square
312 Shaw Boulevard
Mandaluyong City

Mandaluyong Libertad
534-5507 / 534-7617 / 535-3091
G/F-Units A, B & C, Dr. Aguilar Building
No. 46 D.M. Guevarra Street corner
Esteban Street, Mandaluyong City

Marikina
647-5758 / 647-5757
324 J.P. Rizal Street
Calumpang, Marikina City

Muntinlupa
846-9311 / 659-1008 / 659-0366
G/F Remenes Center Building
22 National Road, Putatan
Muntinlupa City

New Manila
725-1700 / 726-3202 / 722-6239
Aurora Boulevard corner
Doña Juana Rodriguez Avenue
New Manila

Northbay, Navotas
922-0812 / 922-1163
G/F Melandria III Building
No. 1090 Northbay Boulevard (South)
Navotas City

Novaliches, QC
355-2630 / 355-2700 / 355-2741
Lot 489-B2, Barangay Gulod
Quirino Highway, Novaliches
Quezon City

Olongapo
(047) 222-8592 / (047) 222-8593
(047) 222-8594
1215 West Tapinak St, Olongapo City

Ortigas
687-0037 / 687-0039
G/F Unit 103 AIC Gold Tower
Condominium, Emerald corner
Garnet Avenues, Ortigas Center

Paco
527-32-98 / 527-3609 / 527-4539
1050 Pedro Gil Street, Paco, Manila

Paseo de Roxas
840-5450 / 840-5434 / 840-5442
G/F # 111 Paseo de Roxas Building
Paseo de Roxas Street corner
Legaspi Village, Makati City

Pasig Poblacion
642-8559 / 642-8729
A. Mabini corner Blumentritt Street
Kapasigan, Pasig City

Pasig Shaw
635-7311 / 635-7312
27 Shaw Boulevard, Pasig City

Paso de Blas
332-2061 / 332-2620 / 332-2246
191 Paso De Blas, Valenzuela City

Pasong Tamo
892-2825 / 867-2756
G/F Dacon Building
2281 Pasong Tamo Extension

Pioneer, Mandaluyong
571-2970 / 584-3392
UG-09 Pioneer Pointe Condominium
Pioneer Street, Mandaluyong City

Potrero
352-5490 / 352-7682 / 442-7583
Mary Grace Building
MacArthur Hi-way corner
Del Monte Street
Potrero, Malabon

President's Avenue
807-5549 / 519-7355 / 519-7146
35 President's Avenue, BF Homes
Parañaque City

Quezon Avenue
372-8214 / 376-5796
G/F Sunshine Boulevard Plaza
Quezon Avenue corner Scout Santiago
and Panay Avenues, Quezon City

Regalado
939-5459 / 417-2822 / 939-5460
Regalado Avenue
corner Archer Street
North Fairview Subdivision

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

BRANCH DIRECTORY

Roxas Boulevard
525-3605 / 526-0533
G/F DENR Building
1515 Roxas Boulevard, Ermita, Manila

Salcedo
815-8810 / 815-8490 / 815-8747
G/F First Life Center
174 Salcedo Street, Legaspi Village
Makati City

San Juan
725-8522 / 725-5442
S. Blumentritt corner M. Salvador
San Juan City

San Miguel Avenue, Ortigas
6375649 / 6375121
Unit 101, G/F Medical Plaza Building
San Miguel Avenue,
Ortigas Business Center, Pasig City

Soler
243-6406 / 243-5872 / 244-0169
G/F R&S Tower, 941 Soler Street
Binondo, Manila

South Triangle
352-8100 / 352-8160 / 352-8163
1604 Quezon Avenue
near corner Scout Albano
Barangay South Triangle, Quezon City

Sto. Cristo
247-7110 / 247-7112 / 245-3982
Unit 107 & 108
Sto. Cristo Condominium
Sto. Cristo corner Ilang-Ilang Streets
Binondo

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

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

Tandang Sora
951-0813 / 951-2550
Lot 80-A Kalaw Hills Subdivision
Barangay Culiat, Tandang Sora

Taytay
660-1826 / 660-1828
Valley Fair Town Center
Ortigas Avenue Extension
Taytay, Rizal

Tektite
637-4164 / 667-3211
G/F East Tower
Philippine Stock Exchange Center
Exchange Road Ortigas Center
Pasig City

The Fort
856-4275 / 856-4833
G/F Marajo Tower, 26th Street
corner 4th Street, Fort Bonifacio
Taguig City

Tomas Morato
929-5313 / 928-2163 / 928-6286
257 Tomas Morato corner
Scout Fuentebella, Quezon City

UN Avenue
575-3345 / 575-3347 / 575-3326
G/F Philam Building, U.N Avenue
corner Ma. Orosa Street
Ermita, Manila

Valenzuela
291-8961 / 445-0756
JLB Enterprises Building
McArthur Highway, Marulas
Valenzuela City

Valero
751-0002 / 751-0003 / 751-3007
G/F Retail 1B Area
Paseo Parkview Tower
140 Valero Street, Makati City

West Avenue
927-1185 / 927-1997 / 927-2502
108 West Avenue corner
West Lawin Street, Quezon City

Westgate
771-0812 / 771-0813 / 771-0814 / 771-0815
/ 771-0816 / 771-0811
Westgate, Filinvest Corporate City
Alabang, Muntinlupa City

168 Mall
708-4488 / 708-4595 / 708-4596
i68 Mall Building 5
Unit 4H 09-11, 4th Floor
Soler Street, Binondo, Manila

LUZON

Angeles
(045) 888-1984 / (045) 888-1950
2014 Sto. Rosario Street
Barangay San Jose
Angeles City

Bacoor
(046) 417-0482 / (046) 417-0345
Gen Aguinaldo Highway
Bacoor, Cavite

Baguio
(074) 488-0513 / (074) 448-0514
(074) 448-0515
77 Abanao Avenue, Baguio City

Balanga, Bataan
(047) 237-0350 / (047) 237-0351
(047) 237-0352
Lot 17 & 18 Block 9 Banzon Avenue
corner Cuaderno Street
Balanga, Bataan

Baliuag
(044) 766-5177 / (044) 766-5308
Benigno S. Aquino Avenue
Poblacion Baliuag, Bulacan

Batangas
(043) 723-7665 / (043) 300-6143
54 A. D. Silang Street
corner Pastor Street
Batangas City

Cabanatuan
(044) 464-1635
Melencio Street corner
Gen. Luna Street, Cabanatuan City

Calamba
(049) 834-2628 / (049) 545-9018
Malaya Building, Barangay Uno
Crossing, Calamba City

Carmona
(046) 482-0412 / 575-3888 local 8106
Lot 1947-B Paseo De Carmona Compound
Governor's Drive, Barangay Maduya
Carmona, Cavite

Cauayan
(078) 652-3943 / (078) 652-3945
(078) 652-3946
No. 69, Maharlika Highway
Cauayan City, Isabela

Dagupan
(075) 522-2284 / (075) 522-9221
Maria P. Lee Building
Perez Boulevard
Dagupan City

Imus
(046) 471-5088 / (046) 471-5188
G/F LDB Building
552 Gen. Aguinaldo Highway
Imus, Cavite

BRANCH DIRECTORY

Isabela
(078) 682-7508 / (078) 682-4248
74 National Highway,
Barangay Victory Norte
Santiago City, Isabela

La Union
(072) 700-0008 / (072) 888-2638
Quezon Avenue corner
Ancheta Street, San Fernando
La Union

Laoag
(077) 770-5196 / (077) 771-5195
(077) 771-3866
Ablan Building, J.P. Rizal Avenue
corner Don Severo Hernando Avenue
Laoag City

Lipa
(043) 784-1377 / (043) 784-1398
(043) 784-1336
No. 18, Lot 712-A, B, & C
B. Morada Avenue, Lipa City

Lucena
(042) 373-7623 / (042) 373-7625
(042) 373-7626
152 Quezon Avenue, Lucena City

Naga
(054) 811-1003 / (054) 472-6502
LAM Building, 19 Peñafrancia Avenue
Zone 1, San Francisco, Naga City

San Fernando
(045) 961-7936 / (045) 961-7937
Felix S. David Building
Mc Arthur Highway, San Fernando
Pampanga

Tarlac
(045) 982-3567 / (045) 982-1691
(045) 982-1937
Mariposa Building, F. Tanedo Street
Tarlac City

Urdaneta
(075) 656-2838 / (02) 250-6215
G/F of S&P North Mall, McArthur
Nancayasan, Urdaneta City
Pangasinan

VISAYAS

Bacolod
(034) 433-8321 / (034) 433-8321
Lacson corner Luzuriaga Streets
Bacolod City

Cebu Banilad
(032) 232-5580 / (032) 232-5582
(032) 232-5588
G/F Unit 101 of PDI Condominium
Archbishop Reyes Avenue
corner J. Panis Street, Banilad
Cebu City

Cebu Escario
(032) 416-9930 / (032) 416-9931
(032) 416-9932
Cebu Capitol Commercial Complex
N. Escario, Cebu City

Cebu Magallanes
(032) 254-1940 / (032) 254-0860
60 Quiaco Building, Magallanes
corner Gonzales Street, Cebu City

Cebu Mandaue
(032) 346-5268 / (032) 420-5778
G/F Ramcar Building
M.C. Briones Highway
Mandaue City, Cebu

Cebu-Mactan
(032) 236-6516 / 236-6517 / 236-6520
APP Building II, Mactan Branch
M.L. Quezon National Highway
Pusok, Lapu-lapu City

Iloilo
(033) 336-0442 / (033) 336-0443
(033) 336-0441
Sta. Cruz Arancillo Building
Ledesma corner Fuentes Streets
Iloilo City

Tacloban
(053) 321-9955 / (053) 523-6556
141 Justice Romualdez Street
Tacloban City

MINDANAO

Cagayan de Oro
(088) 857-8801 / (088) 857-8802
50 Juan SIA Building
Don Apolinar Velez Street
Cagayan de Oro City

Cotabato
(064) 421-5961 / (064) 421-5960
(064) 421-5963
Don Roman Vilo Street
Cotabato City

Davao Lanang
(082) 234-0866 / (082) 234-0867
Lot 6 Block 5, Insular Village
Pampanga Buhangin, Lanang
Davao City

Davao Matina
(082) 299-0893 / (082) 297-4183
(082) 297-1206
Fred-Ric Building, McArthur Highway
Matina, Davao City

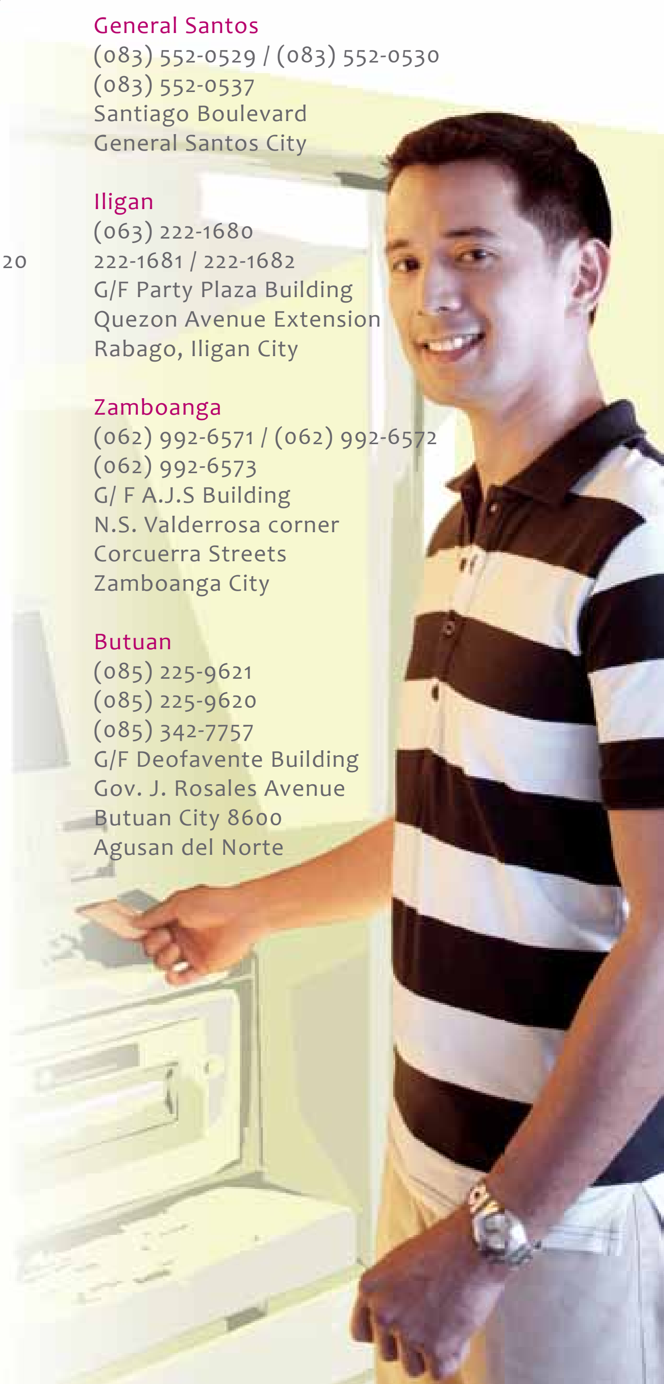
Davao Sta. Ana
(082) 221-4019 / (082) 221-4021
(082) 221-0436
G/F GH Depot Building
Gov. Sales Street, Sta. Ana, Davao City

General Santos
(083) 552-0529 / (083) 552-0530
(083) 552-0537
Santiago Boulevard
General Santos City

Iligan
(063) 222-1680
222-1681 / 222-1682
G/F Party Plaza Building
Quezon Avenue Extension
Rabago, Iligan City

Zamboanga
(062) 992-6571 / (062) 992-6572
(062) 992-6573
G/ F A.J.S Building
N.S. Valderrosa corner
Corcuerra Streets
Zamboanga City

Butuan
(085) 225-9621
(085) 225-9620
(085) 342-7757
G/F Deofavente Building
Gov. J. Rosales Avenue
Butuan City 8600
Agusan del Norte



Audited Financial Statements

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of EAST WEST BANKING CORPORATION is responsible for all information and representations contained in the financial statements for the year ended December 31, 2010. The financial statements have been prepared in conformity with generally accepted accounting principles 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 its external auditors: (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 internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors (BOD) reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the BOD, has audited the financial statements of the Company as of and for the year ended December 31, 2010 in accordance with Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the BOD.

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

Report on the Financial Statements

We have audited the accompanying financial statements of East West Banking Corporation, which comprise the statements of financial position as at December 31, 2010 and 2009, 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 information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of East West Banking Corporation as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 30 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not required part of the basic financial statements. Such information is the responsibility of the management of East West Banking Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso

Janet A. Paraiso
Partner
CPA Certificate No. 92305
SEC Accreditation No. 0778-A
Tax Identification No. 193-975-241
BIR Accreditation No. 08-001998-62-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641502, January 3, 2011, Makati City

March 31, 2011

Statements of Financial Position

	December 31	
	2010	2009
ASSETS		
Cash and Other Cash Items (Note 15)	**₱2,079,324,409**	₱1,605,786,884
Due from Bangko Sentral ng Pilipinas (Notes 14 and 15)	**11,556,017,833**	6,322,226,839
Due from Other Banks	**1,253,412,293**	3,285,004,624
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 7)	**2,598,620,800**	8,933,100,000
Financial Assets at Fair Value Through Profit or Loss (Note 8)	**4,598,478,550**	1,487,101,550
Available-for-Sale Investments (Note 8)	**16,018,420,670**	15,024,558,319
Loans and Receivables (Notes 9 and 26)	**40,264,295,473**	33,076,914,051
Property and Equipment (Note 10)	**1,266,428,626**	961,304,613
Investment Properties (Notes 11 and 14)	**844,340,643**	817,190,814
Deferred Tax Assets (Note 23)	**1,272,972,882**	1,082,289,875
Intangible Assets (Notes 6 and 13)	**1,378,330,651**	1,327,155,226
Other Assets (Note 12)	**626,103,493**	1,079,695,860
	₱83,756,746,323	₱75,002,328,655

LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 15 and 26)		
Demand	**₱19,278,484,455**	₱14,765,014,179
Savings	**8,536,540,965**	8,352,259,971
Time	**36,988,869,349**	34,955,515,309
Long-term negotiable certificates of deposits	**1,668,800,613**	1,712,056,180
	66,472,695,382	59,784,845,639
Bills and Acceptances Payable (Note 16)	**161,141,425**	1,957,637,301
Accrued Taxes, Interest and Other Expenses (Note 17)	**753,463,907**	482,623,646
Cashier's Checks and Demand Draft Payable	**299,477,957**	822,253,813
Subordinated Debt (Note 18)	**2,750,000,000**	1,250,000,000
Other Liabilities (Note 19)	**3,561,075,150**	2,565,406,595
	73,997,853,821	66,862,766,994
EQUITY		
Common Stock (Note 21)	**3,873,528,100**	3,873,528,100
Preferred Stock (Note 21)	**3,000,000,000**	3,000,000,000
Surplus Reserves (Note 27)	**33,072,891**	28,571,016
Surplus (Note 27)	**2,717,948,286**	979,289,893
Net Unrealized Gains on Available-for-Sale Investments	**188,772,260**	272,407,847
Cumulative Translation Adjustment	**(54,429,035)**	(14,235,195)
	9,758,892,502	8,139,561,661
	₱83,756,746,323	₱75,002,328,655

See accompanying Notes to Financial Statements.

Statements of Income

	Years Ended December 31	
	2010	2009
INTEREST INCOME		
Loans and receivables (Notes 9 and 26)	**₱4,518,081,459**	₱3,884,251,224
Trading and investment securities (Note 8)	**1,070,060,651**	1,029,902,918
Due from other banks and interbank loans receivable and securities purchased under resale agreements	**297,450,829**	285,297,682
	5,885,592,939	5,199,451,824
INTEREST EXPENSE		
Deposit liabilities (Note 15)	**1,328,326,559**	1,443,096,651
Subordinated debt, bills payable and other borrowings (Notes 16 and 18)	**238,817,217**	226,825,672
	1,567,143,776	1,669,922,323
NET INTEREST INCOME	**4,318,449,163**	3,529,529,501
Service charges, fees and commissions	**1,341,778,345**	912,963,616
Trading and securities gain (Note 8)	**1,155,256,556**	426,734,155
Foreign exchange gain	**293,709,143**	235,186,952
Gain on asset foreclosure and dacion transactions	**50,958,827**	91,981,538
Trust income (Note 27)	**45,018,754**	69,955,713
Gain on sale of assets	**42,281,466**	13,124,446
Miscellaneous	**146,967,038**	171,385,762
TOTAL OPERATING INCOME	**7,394,419,292**	5,450,861,683
OPERATING EXPENSES		
Provision for impairment and credit losses (Notes 9, 11, 12 and 14)	**1,552,210,920**	1,237,230,547
Compensation and fringe benefits (Notes 24 and 26)	**1,364,816,703**	1,048,327,589
Taxes and licenses	**452,494,683**	378,278,074
Rent (Note 25)	**273,789,163**	237,789,406
Depreciation and amortization (Notes 10, 11 and 12)	**250,852,503**	278,692,701
Amortization of intangible assets (Note 13)	**84,309,185**	63,911,769
Miscellaneous (Note 22)	**1,636,446,589**	1,536,916,828
TOTAL OPERATING EXPENSES	**5,614,919,746**	4,781,146,914
INCOME BEFORE INCOME TAX	**1,779,499,546**	669,714,769
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)	**(31,160,722)**	48,056,589
NET INCOME	**₱1,810,660,268**	₱621,658,180

See accompanying Notes to Financial Statements.

Statements of Comprehensive Income

	Years Ended December 31	
	2010	2009
NET INCOME FOR THE YEAR	**₱1,810,660,268**	₱621,658,180
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains on available-for-sale investments	**1,050,777,705**	962,349,503
Realized gain transferred to statement of income	**(1,134,413,292)**	(400,339,872)
Net change in fair value of available-for-sale investments	**(83,635,587)**	562,009,631
Cumulative translation adjustment	**(40,193,840)**	(22,298,959)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(123,829,427)**	539,710,672
TOTAL COMPREHENSIVE INCOME	**₱1,686,830,841**	₱1,161,368,852

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	Cumulative Translation Adjustment	Total Equity
Balances at January 1, 2010	**₱3,873,528,100**	**₱3,000,000,000**	**₱28,571,016**	**₱979,289,893**	**₱272,407,847**	**(₱14,235,195)**	**₱8,139,561,661**
Net income	–	–	–	1,810,660,268	–	–	1,810,660,268
Other comprehensive loss	–	–	–	–	(83,635,587)	(40,193,840)	(123,829,427)
Total comprehensive income	–	–	–	1,810,660,268	(83,635,587)	(40,193,840)	1,686,830,841
Dividends paid	–	–	–	(67,500,000)	–	–	(67,500,000)
Transfer to surplus reserves (Note 27)	–	–	4,501,875	(4,501,875)	–	–	–
Balances at December 31, 2010	**₱3,873,528,100**	**₱3,000,000,000**	**₱33,072,891**	**₱2,717,948,286**	**₱188,772,260**	**(₱54,429,035)**	**₱9,758,892,502**
Balances at January 1, 2009	₱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
Net income	–	–	–	621,658,180	–	–	621,658,180
Other comprehensive income	–	–	–	–	562,009,631	(22,298,959)	539,710,672
Total comprehensive income	–	–	–	621,658,180	562,009,631	(22,298,959)	1,161,368,852
Transfer 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

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Years Ended December 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,779,499,546**	₱669,714,769
Adjustments for:		
Depreciation and amortization (Notes 10, 11 and 12)	**250,852,503**	278,692,701
Amortization of intangible assets (Note 13)	**84,309,185**	63,911,769
Write-off of capitalized software (Note 13)	**811,890**	4,532,329
Provision for impairment and credit losses (Note 14)	**1,552,210,920**	1,237,230,547
Gain on sale of available-for-sale investments (Note 8)	**(1,134,413,292)**	(400,339,872)
Gain on asset foreclosure and dacion transactions	**(50,958,827)**	(91,981,538)
Gain on sale of assets	**(42,281,466)**	(13,124,446)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Financial assets at fair value through profit or loss	**(3,111,377,000)**	(1,033,698,090)
Loans and receivables	**(8,846,129,677)**	(4,426,980,891)
Other assets	**364,873,729**	(236,093,344)
Increase (decrease) in the amounts of:		
Deposit liabilities	**6,687,849,743**	11,735,316,411
Accrued taxes, interest and other expenses	**311,316,413**	(30,521,788)
Cashier's checks and demand draft payable	**(522,775,856)**	550,450,348
Other liabilities	**995,668,555**	662,297,716
Net cash generated from (used in) operations	**(1,680,543,634)**	8,969,406,621
Income taxes paid	**(199,998,437)**	(246,150,494)
Net cash provided by (used in) operating activities	**(1,880,542,071)**	8,723,256,127
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Available-for-sale investments	**83,304,662,863**	50,040,750,462
Investment properties (Note 11)	**136,317,289**	36,954,332
Property and equipment (Note 10)	**33,954,217**	10,794,525
Proceeds from sale and maturity of held-to-maturity investments	**–**	1,141,049,171
Acquisitions of:		
Available-for-sale investments	**(83,247,747,509)**	(53,741,310,973)
Property and equipment (Note 10)	**(505,095,425)**	(437,965,323)
Capitalized software (Note 13)	**(136,296,500)**	(175,062,688)
Held-to-maturity investments	**–**	(536,650,000)
Net cash acquired from business combination (Note 6)	**–**	57,129,991
Net cash used in investing activities	**(₱414,205,065)**	(₱3,604,310,503)

(Forward)

	Years Ended December 31	
	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of subordinated debt	**₱1,500,000,000**	₱–
Proceeds from bills and acceptances payable	**464,059,917**	116,207,524,633
Payments of bills and acceptances payable	**(2,260,555,793)**	(117,435,604,607)
Payments of dividends	**(67,500,000)**	–
Issuance of preferred stock	**–**	3,000,000,000
Net cash provided by (used in) financing activities	**(363,995,876)**	1,771,920,026
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,658,743,012)**	6,890,865,650
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**1,605,786,884**	1,756,510,279
Due from Bangko Sentral ng Pilipinas	**6,322,226,839**	4,605,556,766
Due from other banks	**3,285,004,624**	873,185,652
Interbank loans receivable and securities purchased under resale agreements	**8,933,100,000**	6,020,000,000
	20,146,118,347	13,255,252,697
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**2,079,324,409**	1,605,786,884
Due from Bangko Sentral ng Pilipinas	**11,556,017,833**	6,322,226,839
Due from other banks	**1,253,412,293**	3,285,004,624
Interbank loans receivable and securities purchased under resale agreements	**2,598,620,800**	8,933,100,000
	₱17,487,375,335	₱20,146,118,347

NET OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	2010	2009
Interest received	**₱5,723,065,333**	₱5,118,297,905
Interest paid	**1,490,151,029**	1,712,058,824
Dividend received	**1,066,046**	190,106

See accompanying Notes to Financial Statements.

Notes to Financial Statements

1. Corporate Information

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 100.00% 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 113 and 89 branches as of December 31, 2010 and 2009, 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 31, 2011.

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 peso and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos, which is the Bank's presentation currency (see accounting policy on Foreign Currency Transactions and 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 financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 20.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended standards, interpretations and improvements to PFRS which were adopted as of January 1, 2010. These new and amended standards, interpretations and improvements to PFRS did not have any impact on the accounting policies, financial position or performance of the Bank.

New and Amended Standards and Interpretations

- PFRS 2, *Share-based Payment* (Amendment) - *Group Cash-settled Share-based Payment Transactions*
- PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended), *Consolidated and Separate Financial Statements*
- PAS 39, *Financial Instruments: Recognition and Measurement* (Amendment) - *Eligible Hedged Items*
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

Improvement to PFRS in 2008

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

Improvements to PFRS in 2009

- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PFRS 8, *Operating Segments*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statement of Cash Flows*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

Future Changes in Accounting Policies

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This is a listing of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended standards to have a significant impact on the financial statements.

PAS 32, *Financial Instruments: Presentation* (Amendment) - *Classification of Rights Issues*

The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010. It amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

PAS 24 (Amended), *Related Party Disclosures*

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

PAS 12, *Income Taxes* (Amendment) - *Deferred Tax: Recovery of Underlying Assets*

The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

PFRS 7, *Financial Instruments: Disclosures* (Amendments) - *Disclosures - Transfers of Financial Assets*

The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

PFRS 9, *Financial Instruments: Classification and Measurement*

PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in the second quarter of 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets. On March 31, 2011, the Bank's BOD approved the early adoption of the standard in 2011. The Bank is currently assessing and quantifying the impact of this standard on the financial statements.

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after 1 January 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 14 (Amendment) - *Prepayments of a Minimum Funding Requirement*
The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Improvements to PFRSs in 2010
The amendments listed below have not yet been adopted as these will become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The Bank expects the adoption of these improvements to have no significant impact on the financial statements.
- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

Summary of Significant Accounting Policies

Foreign Currency Transactions and Translation
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 prevailing exchange rate at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities of the RBU are credited to or charged against operations in the period in which the rates change. Exchange differences arising from translation of the accounts of the FCDU to Philippine peso as the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment.'

Non-monetary items that are measured in terms of historical cost 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.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date, the date that an asset is delivered to or by the Bank. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered 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, loans and receivables and derivatives are recognized when cash is received by the Bank or advanced to the borrowers.

Derivatives are recognized on trade date - the date that the Bank becomes a party to the contractual provisions of the instrument. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

The Bank recognizes 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 financial instruments 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 as other comprehensive income is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using effective interest 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.

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 techniques, 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 from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the 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 means of reducing or managing its respective foreign exchange, 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 designated in an effective hedge accounting relationship) are taken directly to the statement of income and are included in 'Foreign exchange gain (loss)'. 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 modify contractual cash flows.

As of December 31, 2010 and 2009, 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)' in the statement of income. 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 of financial assets and liabilities designated at FVPL are recorded in 'Trading and securities gain (loss)' in the statement of income. 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 to receive payment has been established.

As of December 31, 2010 and 2009, the Bank has not designated any financial assets and liabilities as 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 effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. 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.

As of December 31, 2010 and 2009, the Bank has no HTM investments.

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 agreements (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', or designated as 'AFS investments' or 'Financial assets designated at FVPL'.

After initial measurement, loans and receivables are subsequently measured using the effective interest method. 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 '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 securities.

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

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as 'Trading and securities gain (loss)' in the statement of income. Interest earned on holding AFS debt securities are reported as 'Interest income' using the effective interest method. Dividends earned on holding AFS equity securities are recognized in the statement of income when the right to receive 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 effective interest 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 when:
- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control 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, 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 effective interest 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 other banks

For loans and receivables and due from other 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 'Provision for impairment and credit losses' in 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 write-off is later recovered, except for credit card receivables, any amounts formerly charged are credited to the 'Provision for impairment and credit losses' in the statement of income. For credit card receivables, if a write-off is later recovered, any amounts previously charged to 'Provision for impairment and credit losses' are credited to 'Miscellaneous income' 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 similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses of 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 is 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 the case of equity instruments 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 reclassified 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 other 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) and 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 the 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.

Service charges and penalties

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

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 and credit related 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
Trading and securities gain represents results arising from trading activities including all gains and losses from changes in fair value of financial assets and financial liabilities held for trading and gains and losses from disposal of 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 to income over the installment terms and is computed using the effective interest method.

Customer loyalty programmes
Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The fair value of the consideration received in respect of the initial sale is allocated between the award credits and the other components of the sale. Income generated from customer loyalty programmes is recognized as part of 'Service charges, fees and commissions' in the statement of income.

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

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 subject 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 (EUL) of the property and equipment.

	Years
Buildings	30
Furniture, fixtures and equipment	3-5

The cost of the leasehold improvements is amortized over the shorter of the covering lease term or the EUL of the improvements of 5 years.

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.

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 recorded as '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 any 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 'Gain on sale of assets' 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 from January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed in the statement of income.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Business combinations prior to January 1, 2010
In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Bank acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Bank had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets, excluding goodwill, are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Intangible assets include goodwill, customer relationship, core deposits and capitalized software (see Note 13).

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.

Customer relationship and core deposits
Customer relationship and core deposits 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 deposits from AIGPASB are amortized on a straight-line basis over its useful life of 13 and 10 years, respectively (see Note 6).

Capitalized software
Capitalized software 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 estimated useful life of 5 years.

Impairment of Nonfinancial Assets

An assessment is made at each statement of financial position date whether there is any indication of impairment of property and equipment, investment properties, other repossessed assets 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. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is 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:

Property and equipment and investment properties

The carrying values of the property and equipment and investment properties 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 CGUs are written down to their recoverable amounts.

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 CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) 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, 2010 and 2009.

Other intangible assets

Other intangible assets such as customer relationship, core deposits and capitalized 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.

Expense Recognition

Expenses are recognized in the statement of 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 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 statement of financial position as an asset.

Expenses in the statement of income are presented using the nature 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 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 recognized in other 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 charged to 'Additional Paid-in Capital' account. If additional paid-in capital is not sufficient, the excess is charged against 'Surplus.'

'Surplus' represents 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 BOD of the Bank and approved by the BSP. 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 financial reporting date and disclosed accordingly.

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.

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.

b) *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.

c) *Contingencies*

The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside 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).

d) 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. 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.

e) Operating leases

The Bank has entered into a lease commitment for its occupied offices and branches. Based on an evaluation of the terms and conditions of the lease agreements, there will be no transfer of ownership of assets to the Bank at the end of the lease term. 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 (see Note 25).

<u>Estimates</u>

a) Impairment of loans and receivables

The Bank reviews its loans and receivables at each statement of financial position date to assess whether impairment loss 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 impairment loss. 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, 2010 and 2009, the allowance for credit losses on loans and receivables of the Bank amounted to Php3.48 billion and Php3.27 billion, respectively. Loans and receivables are carried at Php40.26 billion and Php33.08 billion as of December 31, 2010 and 2009, respectively (see Note 9).

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, 2010 and 2009, derivative liabilities amounted to Php35.98 million and Php42.99 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, 2010 and 2009, the carrying value of AFS equity investments amounted to Php77.33 million and Php123.22 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 Php1.27 billion and Php1.08 billion as of December 31, 2010 and 2009, respectively. The Bank has unrecognized deferred tax assets amounting to nil and Php33.00 million as of December 31, 2010 and 2009, respectively (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, 2010, the carrying value of the property and equipment and investment properties amounted to Php1,266.43 million and Php844.34 million, respectively. As of December 31, 2009, the carrying value of the property and equipment and investment properties amounted to Php961.30 million and Php817.19 million, respectively (see Notes 10 and 11).

f) *Impairment of 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 CGUs. 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 12.26% and 12.00% as of December 31, 2010 and 2009, respectively. Key assumptions in VIU 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 VIU, 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, 2010 and 2009, the carrying value of goodwill amounted to Php919.25 million (see Note 13).

g) *Estimated useful lives of property and equipment, investment properties, other repossessed assets and intangible assets*

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

As of December 31, the carrying values of property and equipment, investment properties and other repossessed assets and intangible assets follow (excluding land and goodwill):

	2010	2009
Property and equipment (Note 10)	**₱1,002,624,201**	₱697,500,188
Investment properties (Note 11)	**251,401,055**	192,538,543
Other repossessed assets (Note 12)	**67,064,718**	135,511,391
Intangible assets (Note 13)	**459,076,467**	407,901,042

h) *Pension obligation*

The determination of the Bank's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24 and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Bank believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

Plan assets amounted to Php29.27 million and Php43.05 million as of December 31, 2010 and 2009, respectively (see Note 24).

4. Financial Risk Management Objectives and Policies

Risk Management

To ensure that corporate goals and objectives and business and risk strategies are achieved, the Bank utilizes a risk management process that is applied throughout the organization in executing all business activities. Employees' functions and roles fall into one of the three categories where risk must be managed in the business units, operating units and governance units.

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. Forming part of a coherent risk management system are the risk concepts, trading tools, analytical models, statistical methodologies, historical researches 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.

Risk Management Structure

a. Board of Directors (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. The BOD approves the Bank's articulation of risk appetite which is used internally to help management understand the tolerance for risk in each of the major risk categories, its measurement and key controls available that influence the Bank's level of risk taking. 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. At a high level, the BOD also approves the Bank's framework for managing risk.

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, including the Internal Credit Risk Rating System. 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. It monitors the Bank's liquidity position and reviews the impact of strategic decisions on liquidity. It is responsible for managing liquidity risks and ensuring exposures remain within established tolerance levels. The ALCO's primary responsibilities include, among others, (a) 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, (b) managing statement of financial position and ensuring that business strategies are consistent with its liquidity, capital and funding strategies, (c) establishing asset and/or liability pricing policies that are consistent with the statement of financial position objectives, (d) recommending market and liquidity risk limits to the Risk Management Committee and BOD and (e) approving the assumptions used in contingency and funding plans. It also reviews cash flow forecasts, stress testing scenarios and results, and implements liquidity limits and guidelines.

d. Risk Management Committee (RMC)

This board level committee oversees the effectiveness of the Bank's over-all risk management strategies, practices and policies. The RMC reviews and approves principles, policies, strategies, processes and control frameworks pertaining to risk management and recommends to the BOD, as necessary, changes in strategies and amendments in policies. The RMC also evaluates the Bank's risk exposures and estimates its impact on the Bank, 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. It reports to the BOD the Bank's overall risk exposures and the effectiveness of its risk management practices and processes recommending further policy revisions as necessary.

e. Loan and Investments Committee

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, review business/credit risk strategies, quality and profitability of the Bank's credit portfolio and recommend 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. It establishes infrastructure by ensuring business units have the right systems and adequate and competent manpower support to effectively manage its credit risk.

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 retains oversight responsibilities for operational risk, the integrity of the Bank's financial statements, compliance, legal risk and overall policies and practices relating to risk management. 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. Corporate Governance and Compliance Committee (CGCC)

The CGCC is responsible for ensuring the BOD's effectiveness and due observance of corporate governance principles and guidelines. It reviews and assesses the adequacy of the CGCC's charter and Corporate Governance Manual and recommends changes as necessary. It oversees the implementation of the Bank's compliance program and ensures compliance issues are resolved expeditiously. It assists Board members in assessing whether the Bank is managing its compliance risk effectively and ensures regular review of the compliance program.

h. 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 is responsible for developing and implementing the framework for policies and practices to assess and manage enterprise-wide market, credit and operational risks.

It also develops and endorses risk tolerance limits for BOD approval, as endorsed by the RMC, and monitors compliance with approved risk tolerance limits. Finally, it regularly apprises the BOD, through the RMC, the results of its risk monitoring.

i. Internal Audit Division (IAD)

IAD provides an independent assessment of the Bank's management and effectiveness of existing internal control systems through adherence testing of processes and controls across the organization. The IAD audits risk management processes throughout the Bank annually or in a cycle depending on the latest audit rating. It employs a risk-based audit approach that examines both the adequacy of the procedures and the Bank's compliance with the procedures. It discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee which in turn, conducts the detailed discussion of the findings and recommendations during its regular meetings. IAD's activities are suitably designed to provide the BOD with reasonable assurance that significant financial and operating information is materially complete, reliable and accurate; internal resources are adequately protected; and employee performance is in compliance with the Bank's policies, standards, procedures and applicable laws and regulations.

j. Compliance Division

Compliance Division is responsible for reviewing any legal or regulatory matters that could have a significant impact on the Bank's financial statements, the Bank's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies. It reviews the effectiveness and adequacy of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) for any instances of noncompliance.

Credit Risk

Credit concentration

Excessive concentration of lending plays a significant role in the weakening of asset quality. The Bank reduces this risk by diversifying its loan portfolio across various sectors and borrowers. The Bank believes that good diversification across economic sectors and geographic areas, among others, will enable it to ride through business cycles without causing undue harm to its asset quality.

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. Management of concentration of risk is 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. RMD ensures compliance with BSP's limit on exposure to any single person or group of connected persons by closely monitoring large exposures and top 20 borrowers for both single and group accounts.

To maintain the quality of its large exposure accounts, it is the Bank's policy to keep the expected loss (determined based on the credit risk rating of the account) from such accounts to, at most, one percent (1%) of the aggregate outstanding balance of accounts that qualify as large exposures. With this, accounts with better risk grades are given priority in terms of being granted a bigger share in the Bank's loan facilities.

While there is currently no industry limit set, the Bank considers its loan portfolio concentrated if at least thirty percent (30%) of it is centered on a particular industry sector.

Credit concentration profile as of December 31, 2010 and December 31, 2009

Maximum credit risk exposures

The following table shows the Bank's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements (amounts in thousands):

	2010	2009
Cash and other cash items (excluding cash on hand)	**₱17,571**	₱11,506
Due from BSP	**11,556,018**	6,322,227
Due from other banks	**1,253,412**	3,285,005
IBLR and SPURA	**2,598,621**	8,933,100
Financial assets at FVPL		
Government securities	**4,598,465**	1,422,736
Private bonds	**14**	64,366
	4,598,479	1,487,102
AFS investments		
Government securities	**11,311,471**	13,544,135
Private bonds	**4,629,616**	1,357,203
Unquoted equity instruments	**77,334**	123,220
	16,018,421	15,024,558
Loans and receivables		
Receivables from customers		
Corporate lending	**17,838,491**	10,911,293
Consumer lending	**14,766,051**	13,874,480
Residential mortgages	**3,406,344**	3,124,810
Small business lending	**3,078,174**	3,279,998
	39,089,060	31,190,581
Unquoted debt securities		
Government securities	**127,574**	288,825
Private bonds	**114,957**	320,697
	242,531	609,522
Other receivables		
Accounts receivable	**125,143**	648,748
Accrued interest receivable	**652,630**	490,102
Sales contract receivable	**154,931**	137,961
	932,704	1,276,811
	40,264,295	33,076,914
	76,306,817	68,140,412
Commitments	**18,720,599**	18,620,827
Contingent liabilities	**20,880,438**	21,553,275
	39,601,037	40,174,102
	₱115,907,854	₱108,314,514

Large exposures and top 20 borrowers

The table below summarizes the Bank's large exposures and top 20 borrowers (amounts in billions):

	Top 20 Borrowers		Large Exposures	
	Single Borrowers	Group Borrowers	Single Borrowers	Group Borrowers
Aggregate Exposure	₱8.9	₱9.5	₱5.1	₱5.6
Composite Risk Rating	2.6	2.7	1.7	1.9
Total Expected Loss/Aggregate Exposure	0.52%	0.47%	0.18%	0.20%

As of December 31, 2010 and 2009, the maximum credit exposure to any client or counterparty is about Php2.00 billion and Php1.50 billion, respectively. These maximum credit exposures, after due consideration of the allowed credit enhancements, are compliant with the regulatory single borrower's limit of 25.00% of the Bank's net worth.

Concentration by industry

An industry sector analysis of the Bank's financial assets follows (in thousands):

	2010			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱11,081,606	₱15,452,638	₱20,664,114	₱47,198,358
Real estate and renting and business activity	9,345,506	–	–	9,345,506
Private households with employed persons	27,069,134	–	–	27,069,134
Wholesale and retail trade, repair of motor vehicles	10,517,147	–	–	10,517,147
Manufacturing	7,372,119	–	–	7,372,119
Agriculture, fisheries and forestry	4,715,812	–	–	4,715,812
Transportation, storage and communication	1,288,592	–	–	1,288,592
Others****	11,955,890	–	–	11,955,890
	83,345,806	15,452,638	20,664,114	119,462,558
Less allowance for credit losses	3,480,473	27,016	47,215	3,554,704
	₱79,865,333	₱15,425,622	₱20,616,899	₱115,907,854

* Includes commitments and contingent accounts.

** Comprised of Other cash items, Due from BSP, Due from other banks and IBLR and SPURA.

*** Comprised of Financial assets at FVPL and AFS investments.

**** Pertains to unclassified loans and receivables, commitments and contingent accounts

	2009			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱14,160,703	₱18,578,854	₱16,563,271	₱49,302,828
Real estate and renting and business activity	6,252,612	–	–	6,252,612
Private households with employed persons	24,121,253	–	–	24,121,253
Wholesale and retail trade, repair of motor vehicles	10,096,368	–	–	10,096,368
Manufacturing	5,638,186	–	–	5,638,186
Agriculture, fisheries and forestry	934,073	–	–	934,073
Transportation, storage and communication	2,127,902	–	–	2,127,902
Others****	13,192,692	–	–	13,192,692
	76,523,789	18,578,854	16,563,271	111,665,914
Less allowance for credit losses	3,272,772	27,016	51,612	3,351,400
	₱73,251,017	₱18,551,838	₱16,511,659	₱108,314,514

* Includes contingent liabilities and commitments.

** Comprised of Other cash items, Due from BSP, Due from other banks and IBLR and SPURA.

*** Comprised of Financial assets at FVPL and AFS investments.

**** Pertains to unclassified loans and receivables, commitments and contingent accounts

Collateral and other credit enhancements

Collaterals are taken into consideration during the loan application process as they offer an alternative way of collecting from the client should a default occur. The percentage of loan value attached to the collateral offered is part of the Bank's lending guidelines. Such percentages take into account safety margins for foreign exchange rate exposure/fluctuations, interest rate exposure, and price volatility.

Collaterals are valued according to existing credit policy standards and, following the latest appraisal report, serve as the basis for the amount of the secured loan facility.

Premium security items are collaterals that have the effect of reducing the estimated credit risk for a facility. The primary consideration for enhancements falling under such category is the ease of converting them to cash.

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 foreclosed assets 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 collaterals profile

The table below provides the collateral profile of the Bank's outstanding loan portfolio:

Security	Corporate Loans		Consumer Loans	
	2010	2009	**2010**	2009
REM*	**13.5%**	14.3%	**18.4%**	18.4%
Other Collateral**	**36.9%**	27.7%	**28.1%**	31.4%
Unsecured	**49.6%**	58.0%	**53.5%**	50.2%

* Real Estate Mortgage

** Consists of government securities, stocks and bonds, hold-out on deposits, assignment of receivables and inventories, etc.

Internal Credit Risk Rating System

The Bank employs a credit scoring system for corporate loan exposures of borrowers with asset size of at least Php15.00 million to assess risks relating to the borrower and the loan exposure. Borrower risk is evaluated by considering (a) quantitative factors under financial condition and (b) 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 (ABRR).

The credit rating for each borrower is reviewed annually. A more frequent review is warranted in cases where 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.

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

Rating	Description	Account/Borrower Characteristics
1	Excellent	• low probability of going into default within the coming year; very high debt service capacity and balance sheets show no sign of any weakness • has ready access to adequate funding sources • high degree of stability, substance and diversity • of the highest quality under virtual economic conditions
2	Strong	• low probability of going into default in the coming year • access to money markets is relatively good • business remains viable under normal market conditions • strong market position with a history of successful financial performance • financials show adequate cash flows for debt servicing and generally conservative balance sheets
3	Good	• sound but may be susceptible, to a limited extent, to cyclical changes in the markets in which they operate • financial performance is good and capacity to service debt remains comfortable • cash flows remain healthy and critical balance sheet ratios are at par with industry norms • reported profits in the past three years and expected to sustain profitability in the coming year
4	Satisfactory	• clear risk elements exist and probability of going into default is somewhat greater, as reflected in the volatility of earnings and overall performance • normally have limited access to public financial markets • able to withstand normal business cycles, but expected to deteriorate beyond acceptable levels under prolonged unfavorable economic period • combination of reasonably sound asset and cash flow protection
5	Acceptable	• risk elements for the Bank are sufficiently pronounced, but would still be able to withstand normal business cycles • immediate deterioration beyond acceptable levels is expected given prolonged unfavorable economic period • there is sufficient cash flow either historically or expected in the future in spite of economic downturn combined with asset protection

Rating	Description	Account/Borrower Characteristics
6	Watchlist	• affected by unfavorable industry or company-specific risk factors • operating performance and financial strength may be marginal and ability to attract alternative sources of finance is uncertain • difficulty in coping with any significant economic downturn; some payment defaults encountered • net losses for at least two consecutive years
7	Special Mention	• ability or willingness to service debt are in doubt • weakened creditworthiness • expected to experience financial difficulties, putting the Bank's exposure at risk
8	Substandard	• collectability of principal or interest becomes questionable by reason of adverse developments or important weaknesses in financial cover • negative cash flows from operations and negative interest coverage • past due for more than 90 days • there exists the possibility of future loss to the Bank unless given closer supervision
9	Doubtful	• unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service are doubtful • with non-performing loan (NPL) status • previously rated 'Substandard' by the BSP • loss on credit exposure unavoidable
10	Loss	• totally uncollectible • prospect of re-establishment of creditworthiness and debt service is remote • lender shall take or has taken title to the assets and is preparing foreclosure and/or liquidation although partial recovery may be obtained in the future • considered uncollectible or worthless and of such little value that 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 risk ratings are assessed and updated regularly.

<u>Credit quality profile as of December 31, 2010 and 2009</u>

External ratings

The Bank also uses external ratings, such as Standard & Poor's, Moody's, and Fitch, to evaluate its counterparties. Accounts falling under this category are normally of the following nature: Due from BSP, Due from other banks, IBLR and SPURA, Financial assets at FVPL, and AFS investments.

Investments and Financial Securities

The table below shows credit quality, based on external ratings, per class of financial assets that are neither past due nor impaired (amounts in thousands):

	2010			
	AA/A	**BB/B**	**Unrated**	**Total**
Due from BSP	**₱–**	**₱–**	**₱11,583,034**	**₱11,583,034**
Due from other banks	**238,575**	**479,799**	**535,038**	**1,253,412**
IBLR and SPURA	**1,424,800**	**–**	**1,173,821**	**2,598,621**
Financial assets at FVPL				
Government securities	**–**	**4,598,465**	**–**	**4,598,465**
Private bonds	**–**	**–**	**14**	**14**
	–	**4,598,465**	**14**	**4,598,479**
AFS investments				
Government securities	**–**	**11,311,471**	**–**	**11,311,471**
Private bonds	**96,018**	**2,714,468**	**1,819,130**	**4,629,616**
Unquoted equity investments	**–**	**–**	**14,512**	**14,512**
	96,018	**14,025,939**	**1,833,642**	**15,955,599**
	₱1,759,393	**₱19,104,203**	**₱15,125,549**	**₱35,989,145**

	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	713,137	1,357,203
Unquoted equity investments	–	–	64,795	64,795
	505,439	13,682,762	777,932	14,966,133
	₱2,659,165	₱16,297,293	₱16,064,125	₱35,020,583

The tables below show the credit quality, based on the Bank's credit rating system, by class of loans and receivables that are neither past due nor impaired (amounts in thousands):

	2010				
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Total**
Receivables from customers					
Corporate lending	**₱10,924,122**	**₱5,925,051**	**₱–**	**₱68,128**	**₱16,917,301**
Consumer lending	**193,504**	**8,634,882**	**9,810,138**	**–**	**18,638,524**
	11,117,626	**14,559,933**	**9,810,138**	**68,128**	**35,555,825**
Unquoted debt securities	**–**	**–**	**–**	**204,870**	**204,870**
Accounts receivable	**–**	**–**	**–**	**24,725**	**24,725**
Accrued interest receivable	**–**	**–**	**–**	**401,513**	**401,513**
Sales contract receivable	**–**	**–**	**–**	**137,773**	**137,773**
	–	**–**	**–**	**768,881**	**768,881**
	₱11,117,626	**₱14,559,933**	**₱9,810,138**	**₱837,009**	**₱36,324,706**

	2009				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers					
Corporate lending	₱6,789,429	₱3,682,466	₱–	₱42,342	₱10,514,237
Consumer lending	186,828	8,336,971	9,471,680	–	17,995,479
	6,976,257	12,019,437	9,471,680	42,342	28,509,716
Unquoted debt securities	–	–	–	334,786	334,786
Accounts receivable	–	–	–	44,310	44,310
Accrued interest receivable	–	–	–	301,522	301,522
Sales contract receivable	–	–	–	122,682	122,682
	–	–	–	803,300	803,300
	₱6,976,257	₱12,019,437	₱9,471,680	₱845,642	₱29,313,016

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 as High Grade borrowers. Included in the High Grade category are those accounts that fall under 'Excellent', 'Strong', 'Good' and 'Satisfactory' categories under ICRRS (with rating of 1-4).

Standard rated borrowers normally require tangible collateral, such as real estate mortgage (REM), to either fully or partially secure the credit facilities as such accounts indicate a relatively higher credit risk than those considered as High Grade. Included in Standard Grade category are those accounts that fall under 'Acceptable', 'Watchlist' and 'Special mention' categories under ICRRS (with rating of 5-7).

Substandard Grade accounts pertain to corporate accounts falling under the 'Substandard,' 'Doubtful' and 'Loss' categories under ICRRS (with rating of 8-10) and unsecured revolving credit facilities.

Those accounts that are classified as unrated includes consumer loans, unquoted debt securities, accounts receivable, accrued interest receivable and sales contract receivable for which the Bank has not yet established a credit rating system.

Impairment Assessment

On a regular basis, the Bank conducts an impairment assessment exercise to determine expected losses on its loans portfolio.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or if 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 whereby 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 classified and restructured corporate accounts.

b. Collective Impairment Testing

All other accounts which were assessed to not go through individual assessment 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 with 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 (except credit card receivables) adopt the basic model of estimating expected loss given an exposure by taking the product of DR and LGDR. LGDR, on the other hand, is estimated at 100% less recoveries, where recoveries are estimated based on collection experience, i.e. estimated proceeds from sale of collateral, restructuring, and client-initiated recoveries. Historical experience considered ranges from a minimum of 2 to 3-year cycle, depending on data availability. For credit card receivables, allowance for impairment and credit losses is determined based on the results of the net flow rate methodology. Net flow tables are derived from account-level monitoring of monthly peso movements between different stage buckets, from 1-day past due to 180-days past due. The net flow to write-off methodology relies on the last 24 months of net flow tables to establish a percentage ('net flow rate') of accounts receivable that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of reporting date that will eventually result in write-offs.

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 (amounts in thousands).

	2010					
	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	**₱–**	**₱5,000**	**₱12,000**	**₱2,390**	**₱4,916**	**₱24,306**
Consumer lending	**18,859**	**1,532**	**31,504**	**44,715**	**54,501**	**151,111**
	₱18,859	**₱6,532**	**₱43,504**	**₱47,105**	**₱59,417**	**₱175,417**

	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	19,424	7,339	78,284	40,587	181,622	327,256
	₱94,470	₱7,339	₱80,284	₱42,614	₱282,977	₱507,684

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 as of December 31, 2010 and 2009 for renegotiated financial assets by class (amounts in thousands).

	2010	2009
Receivables from customers:		
Corporate lending	**₱584,272**	₱388,839
Consumer lending	**720,861**	486,295
	₱1,305,133	₱875,134

<u>Liquidity Risk</u>
The main responsibility of daily asset liability management lies with the Treasury Group, specifically the Liquidity Desk, which is tasked to manage the Bank's balance sheet and have a thorough understanding of the risk elements involved in the business. The Bank's liquidity risk management is then monitored through ALCO. Resulting analysis of the balance sheet along with the recommendation is presented during the weekly ALCO meeting where deliberations, formulation of actions and decisions are made to minimize risk and maximize Bank returns. Discussions include actions taken in the previous ALCO meeting, economic and market status and outlook, liquidity risk, pricing and interest rate structure, limit status and utilization. To ensure that the Bank has sufficient liquidity at all times, the ALCO formulates a contingency plan which sets out the amount and the sources of funds (such as unutilized credit facilities) available to the Bank and the circumstances under which such funds will be used.

By way of the Maximum Cumulative Outflow (MCO) limit, the Bank is able to manage its short-term liquidity risks by placing a cap on the outflow of cash on a cumulative basis. 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):

	2010						
	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 cash equivalents*	₱6,889	₱8,328	₱2,225	₱–	₱–	₱24	₱17,466
Investments and trading securities**	–	8,091	4,744	3,102	5,105	29	21,071
Loans and receivables	55	15,831	4,680	3,769	2,990	17,347	44,672
	₱6,944	₱32,250	₱11,649	₱6,871	₱8,095	₱17,400	₱83,209

	2010						
	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	₱–	₱1,186	₱1,173	₱681	₱296	₱66,607	₱69,943
Bills and acceptances payable	–	100	–	–	–	61	161
Subordinated debt	–	–	–	–	–	2,750	2,750
Other liabilities	313	172	–	–	–	3,458	3,943
Contingent liabilities	–	(19)	130	276	11	555	953
	₱313	₱1,439	₱1,303	₱957	₱307	₱73,431	₱77,750

* 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

	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 cash equivalents*	₱7,557	₱10,206	₱2,907	₱–	₱–	₱–	₱20,670
Investments and trading securities**	–	4,962	2,658	2,207	1,110	5,523	16,460
Loans and receivables	39	10,201	2,699	2,142	1,380	16,863	33,324
	₱7,596	₱25,369	₱8,264	₱4,349	₱2,490	₱22,386	₱70,454

	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	₱–	₱65	₱541	₱–	₱–	₱59,066	₱59,672
Bills and acceptances payable	–	1,954	4	–	–	13	1,971
Subordinated debt	–	–	–	–	–	1,250	1,250
Other liabilities	1,314	168	6	7	3	2,494	3,992
Contingent liabilities	–	127	176	(7)	15	378	689
	₱1,314	₱2,314	₱727	₱–	₱18	₱63,201	₱67,574

* 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

The Bank manages liquidity by maintaining a loan portfolio with what it assesses to be sufficient of short-term loans. As of December 31, 2010, Php25.9 billion or 64.31% of the Bank's total gross loans and receivables had remaining maturities of less than one (1) year. Of this amount, Php15.4 billion pertains to corporate loans while Php10.5 billion is from consumer loans. The total portfolio of trading and investment securities is comprised mostly of securities with remaining maturities of less than one year.

The Bank was fully compliant with BSP's limits on FCDU Asset Cover and FCDU Liquid Assets Cover, having reported ratios above 100.00% and 30.00%, respectively, as of December 31, 2010.

Market Risk

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.

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.

Objectives and limitations of the VaR Methodology

The Bank uses the parametric VaR model, using one-year historical Bloomberg data set to assess possible changes in the market value of the trading portfolio. 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, 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 three-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 approved by the Board. If the Market Risk Limit is exceeded, such occurrence is promptly reported to senior management, and further to the Board.

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

	2010	2009
Year-end VaR	**₱220,626,365**	₱213,515,126
Average VaR	**276,665,813**	220,333,793
Highest VaR	**494,368,446**	372,659,357
Lowest VaR	**129,154,035**	21,765,095

The year-end VaR for 2010 was based on a portfolio position size equal to Php19.15 billion with an average yield of 4.87 % and average maturity of five years and eleven months, compared to last year's position size equal to Php9.79 billion with an average yield of approximately 6.00% and average maturity of four years and one month. Government bonds comprise most of the Bank's securities.

Foreign Currency Risk

The Bank holds foreign currency denominated assets and liabilities, thus, fluctuations on the foreign exchange rates can affect the financial and cash flows of the Bank. Managing the foreign exchange exposure is important for banks with exposures in foreign currencies. It includes managing foreign currency positions in order to control the impact of changes in exchange rates on the financial position of the Bank.

As noted above, the Bank likewise applies the VaR methodology in estimating the potential loss of the Bank due to foreign currency fluctuations. The Bank uses a 99.00% confidence level with one-day horizon in estimating the foreign exchange (FX) VaR. 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.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. In 2010, the Bank's 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.

Some of the Bank's transactions exposed to foreign currency fluctuations include spots and forwards contracts, investments in bonds and due from other banks. The FX position emanates from both the RBU and FCDU books. BSP requires banks to match the foreign currency assets with the foreign currency liabilities. Banks are required to maintain at all times a 100.00% cover for their currency liabilities held through FCDU. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDU.

Total foreign exchange 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 USD50.00 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, 2010 and 2009 (amounts in USD):

	2010		
	USD	**Other currencies**	**Total**
Assets			
Gross FX assets	**$472,032,711**	**$1,535,223**	**$473,567,934**
Contingent FX assets	**261,754,185**	**–**	**261,754,185**
	733,786,896	**1,535,223**	**735,322,119**
Liabilities			
Gross FX liabilities	**347,740,755**	**846,244**	**348,586,999**
Contingent FX liabilities	**393,320,000**	**–**	**393,320,000**
	741,060,755	**846,244**	**741,906,999**
Net exposure	**($7,273,859)**	**$688,979**	**($6,584,880)**

	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)

The table below indicates the currencies to which the Bank had significant exposures as of December 31, 2010 and 2009 (amounts in millions). 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 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.

	2010			
Foreign currency appreciates (depreciate	**USD**	**GBP**	**EUR**	**JPY**
+ 10.00%	**(₱32.81)**	**₱0.09**	**₱2.25**	**₱0.48**
- 10.00%	**32.81**	**(0.09)**	**(2.25)**	**(0.48)**

	2009			
Foreign currency appreciates (depreciates	USD	GBP	EUR	JPY
+ 10.00%	(₱25.22)	₱1.55	₱2.42	₱2.43
- 10.00%	25.22	(1.55)	(2.42)	(2.43)

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 re-price, or mature (for contracts that do not re-price), during that period. The re-pricing 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 re-pricing date (or the time remaining to maturity if there is no re-pricing), and then obtaining the difference between the total of the re-pricing (interest rate sensitive) assets and re-pricing (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 re-pricing (or by period of maturity if there is no re-pricing) of the Bank as of December 31, 2010 and 2009:

	2010				
	Up to 1 month	**>1 month to 3 months**	**>3 months to 6 months**	**>6 months to 12 months**	**>12 months**
RBU					
Financial assets					
Cash and cash equivalents	**3.44%**	**1.09%**	–	–	–
Loans and receivables	**6.18%**	**6.90%**	**8.80%**	**8.60%**	**10.04%**
Investment securities	**4.25%**	–	–	**9.26%**	–
Financial liabilities					
Deposit liabilities	**3.83%**	**4.09%**	**4.12%**	**5.50%**	**6.25%**
Bills payable	**3.32%**	–	–	–	–
Subordinated debt	–	–	–	–	**8.01%**
FCDU					
Financial assets					
Cash and cash equivalents	**0.18%**	–	–	–	–
Loans and receivables	**4.04%**	**5.56%**	–	–	–
Investment securities	–	–	–	**2.25%**	–
Financial liabilities					
Deposit liabilities	**1.80%**	**1.54%**	**2.10%**	**1.84%**	–

	2009				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
RBU					
Financial assets					
Cash and cash equivalents	2.23%	3.21%	–	–	–
Loans and receivables	7.77%	8.96%	8.92%	10.54%	12.19%
Investment securities	–	6.13%	5.35%	4.68%	7.06%
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%
Subordinated debt	–	–	–	–	8.63%

(Forward)

	2009				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
FCDU					
Financial assets					
Cash and cash equivalents	0.19%	–	–	–	–
Loans and receivables	5.61%	–	–	–	–
Investment securities	–	5.77%	–	–	6.20%
Financial liabilities					
Deposit liabilities	2.18%	2.31%	1.81%	2.91%	1.88%

The following table sets forth the asset-liability gap position of the Bank as of December 31, 2010 and 2009 (amounts in millions):

	2010					
	Up to 1 month	**> 1 to 3 months**	**> 3 to 6 months**	**>6 to 12 months**	**>12 months**	**Total**
Financial assets						
Cash and cash equivalents	**₱3,493**	**₱2,225**	**₱–**	**₱–**	**₱–**	**₱5,718**
Loans and receivables	**11,106**	**2,229**	**1,209**	**1,441**	**802**	**16,787**
Investment securities	**8,021**	**4,662**	**3,030**	**4,961**	**29**	**20,703**
Total financial assets	**22,620**	**9,116**	**4,239**	**6,402**	**831**	**43,208**
Financial liabilities						
Deposit liabilities	**23,346**	**6,978**	**2,539**	**1,528**	**4,266**	**38,657**
Bills and acceptances payable	**100**	**–**	**–**	**–**	**–**	**100**
Other liabilities	**4**	**–**	**–**	**–**	**102**	**106**
Subordinated debt	–	–	–	–	**2,750**	**2,750**
Contingent liabilities	**(148)**	**41**	**3**	**11**	**21**	**(72)**
Total financial liabilities	**23,302**	**7,019**	**2,542**	**1,539**	**7,139**	**41,541**
Asset-liability gap	**(₱682)**	**₱2,097**	**₱1,697**	**₱4,863**	**(₱6,308)**	**₱1,667**

	2009					
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Total
Financial assets						
Cash and cash equivalents	₱10,200	₱2,919	₱-	₱-	₱-	₱13,119
Loans and receivables	6,500	2,285	1,098	1,364	720	11,967
Investment securities	3,901	2,253	2,197	1,100	5,523	14,974
Total financial assets	20,601	7,457	3,295	2,464	6,243	40,060
Financial liabilities						
Deposit liabilities	18,944	7,582	2,204	1,307	6,519	36,556
Bills and acceptances payable	808	323	346	481	–	1,958
Other liabilities	–	–	–	–	–	–
Subordinated debt	–	–	–	–	1,250	1,250
Contingent liabilities	70	(6)	(7)	8	–	65
Total financial liabilities	19,822	7,899	2,543	1,796	7,769	39,829
Asset-liability gap	₱779	(₱442)	₱752	₱668	(₱1,526)	₱231

With the above re-pricing gap, the Bank could expect negative returns on the first month of 2011 should there be an upward movement in interest rates. Such movement, on the other hand, shall be favorable on the succeeding months until the end of 2011, given that there is more interest earning assets than interest bearing liabilities expected to re-price within the 11-month period.

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	2010	2009
+100bps	**₱33.713**	₱10.159
-100bps	**(33.713)**	(10.159)

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, 2010 and 2009 (amounts in thousands):

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets				
Cash and other cash items	**₱2,079,324**	**₱2,079,324**	₱1,605,787	₱1,605,787
Loans and receivables				
Due from BSP	**11,556,018**	**11,556,018**	6,322,227	6,322,227
Due from other banks	**1,253,412**	**1,253,412**	3,285,005	3,285,005
IBLR and SPURA	**2,598,621**	**2,598,621**	8,933,100	8,933,100
Loans and receivables				
Receivables from customers				
Corporate lending	**17,838,491**	**18,819,924**	10,911,293	10,724,178
Consumer lending	**14,766,051**	**15,912,912**	13,874,480	13,032,705
Residential mortgages	**3,406,344**	**3,370,957**	3,124,810	2,879,759
Small business lending	**3,078,174**	**2,973,324**	3,279,998	3,084,351
Unquoted debt securities	**242,531**	**242,531**	609,522	609,522
Other Receivables	**932,704**	**932,704**	1,276,811	1,276,811
	40,264,295	**42,252,352**	33,076,914	31,607,326
	57,751,670	**59,739,727**	53,223,033	51,753,445
Financial assets at FVPL				
Government securities	**4,598,465**	**4,598,465**	1,422,736	1,422,736
Private bonds	**14**	**14**	64,366	64,366
	4,598,479	**4,598,479**	1,487,102	1,487,102
AFS investments				
Government securities	**11,311,471**	**11,311,471**	13,544,135	13,544,135
Private bonds	**4,629,616**	**4,629,616**	1,357,203	1,357,203
Unquoted equity instruments	**77,334**	**77,334**	123,220	123,220
	16,018,421	**16,018,421**	15,024,558	15,024,558
	₱78,368,570	**₱80,356,627**	₱69,734,693	₱68,265,105

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Deposit liabilities				
Demand	**₱19,278,484**	**₱19,278,484**	₱14,765,014	₱14,765,014
Savings	**8,536,541**	**8,536,541**	8,352,260	8,352,260
Time	**36,988,869**	**37,363,806**	34,955,516	35,196,566
LTNCD	**1,668,801**	**1,763,404**	1,712,056	1,746,009
	66,472,695	**66,942,235**	59,784,846	60,059,849
Bills and acceptances payable	**161,141**	**161,141**	1,957,637	1,957,637
Accrued interest and other expenses	**722,539**	**722,539**	197,482	197,482
Cashier's checks and demand draft payable	**299,478**	**299,478**	822,254	822,254
Subordinated debt	**2,750,000**	**3,189,898**	1,250,000	1,256,994
Other liabilities	**618,862**	**618,862**	1,210,836	1,210,836
	₱71,024,715	**₱71,934,153**	₱65,223,055	₱65,505,052

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, SPURA - The carrying amounts approximate fair values due to the short-term nature of these accounts. These accounts consist mostly of overnight deposits and floating rate placements.

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.

*Debt securitie*s - 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 any accumulated impairment losses.

Liabilities - The fair values of liabilities approximate their carrying amounts due to either 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 that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy (amounts in thousands):

	2010			2009		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Financial assets at FVPL	**₱4,598,479**	**₱–**	**₱–**	₱1,487,102	₱–	₱–
AFS investments	**16,018,421**	**–**	**–**	15,024,558	–	–
Derivative liabilities	**–**	**35,980**	**–**	–	42,990	–

Derivative Financial Instruments

The Bank's freestanding derivative financial instruments, which mainly consist of foreign currency forward contracts and swaps, are transactions not designated as hedges. The table below sets out information about the Bank's derivative financial instruments and the related fair value as of December 31, 2010 and 2009:

	2010	2009
Notional amount	**$131,565,816**	$51,890,877
Derivative liabilities	**₱35,980,034**	₱42,990,327

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

	2010	2009
Derivative liabilities at beginning of year	**₱42,990**	₱2,147
Changes in fair value of derivatives	**35,175**	42,678
Fair value of settled instruments	**(42,185)**	(1,835)
Derivative liabilities at end of year	**₱35,980**	₱42,990

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		
Cash and other cash items	₱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

(Forward)

	Fair value recognized on acquisition	Carrying value
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 Php46.60 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 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 Php334.26 million while the Bank's net income before tax would have increased by Php2.52 million.

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	2010	2009
Interbank loans receivable	**₱2,598,620,800**	₱2,333,100,000
Securities purchased under resale agreements	**–**	6,600,000,000
	₱2,598,620,800	₱8,933,100,000

8. Trading and Investment Securities

This account consists of:

	2010	2009
Financial assets at FVPL	**₱4,598,478,550**	₱1,487,101,550
AFS investments	**16,018,420,670**	15,024,558,319
	₱20,616,899,220	₱16,511,659,869

Financial assets at FVPL classified as held for trading consist of:

	2010	2009
Government securities	**₱4,598,465,017**	₱1,422,736,276
Private bonds	**13,533**	64,365,274
	₱4,598,478,550	₱1,487,101,550

Financial assets at FVPL include net unrealized loss of Php42.31 million and net unrealized gains of Php0.78 million as of December 31, 2010 and 2009, respectively, reported under 'Trading and securities gain (loss)'.

AFS investments consist of:

	2010	2009
Government securities	**₱11,311,471,105**	₱13,544,135,228
Private bonds	**4,629,615,864**	1,357,203,410
Unquoted equity securities	**124,548,251**	174,831,246
	16,065,635,220	15,076,169,884
Allowance for impairment losses (Note 14)	**(47,214,550)**	(51,611,565)
	₱16,018,420,670	₱15,024,558,319

The allowance for impairment losses is attributable to the unquoted equity securities.

Peso-denominated government bonds bear nominal annual interest rates ranging from 4.63% to 17.50% in 2010 and 5.35% to 15.75% in 2009, while foreign currency-denominated bonds bear nominal interest ranging from 4.00% to 10.63% in 2010 and 4.20% to 7.28% in 2009.

In 2010, the Bank participated in a debt exchange program for its certain investment in debt securities classified as AFS investments. The fair value of the debt securities received amounted to Php3.93 billion which is equal to the carrying value of the securities surrendered. The Bank recognized Php0.30 billion gain in the statement of income which represents realization of the mark to market gain previously recognized in other comprehensive income.

In 2009, the Bank participated in a debt exchange program for its certain investment in government securities classified as HTM investments. The related fair value of the debt securities received amounted to Php1.74 billion and the carrying value of the debt securities surrendered amounted to Php1.62 billion. This resulted to recognition of trading and securities gain in the Bank's statement of income amounting to Php0.12 billion. In accordance with PAS 39, with the sale of certain HTM investments, all of its outstanding HTM investments in 2009 were 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:

	2010	2009
Financial assets at FVPL	**₱116,677,934**	₱127,221,639
AFS investments	**953,382,717**	558,891,448
HTM investments	**–**	343,789,831
	₱1,070,060,651	₱1,029,902,918

Trading and securities gain consists of:

	2010	2009
AFS investments	**₱1,134,413,292**	₱400,339,872
Financial assets at FVPL	**20,843,264**	26,394,283
	₱1,155,256,556	₱426,734,155

9. Loans and Receivables

Loans and receivables consist of:

	2010	2009
Receivables from customers		
Corporate lending	**₱19,050,630,773**	₱11,840,118,757
Consumer lending	**17,785,494,120**	17,055,655,356
Residential mortgages	**3,408,869,262**	3,142,238,089
Small business lending	**3,247,379,958**	3,400,588,193
	43,492,374,113	35,438,600,395
Unearned discounts	**(1,487,975,657)**	(1,318,496,938)
	42,004,398,456	34,120,103,457

(Forward)

	2010	2009
Unquoted debt securities		
Government securities	**₱127,574,434**	₱288,825,364
Private bonds	**316,657,392**	437,111,507
	444,231,826	725,936,871
Other receivables		
Accounts receivable	**488,578,696**	875,583,300
Accrued interest receivable	**652,629,500**	490,101,894
Sales contract receivable	**154,930,911**	137,960,750
	1,296,139,107	1,503,645,944
	43,744,769,389	36,349,686,272
Allowance for impairment and credit losses (Note 14)	**(3,480,473,916)**	(3,272,772,221)
	₱40,264,295,473	₱33,076,914,051

Credit card receivables, under consumer lending, amounted to Php10.47 billion and Php9.32 billion as of December 31, 2010 and 2009, respectively.

Receivables from customers consist of:

	2010	2009
Loans and discounts	**₱39,355,733,655**	₱32,972,621,468
Customers' liabilities under letters of credit/trust receipts	**1,605,241,881**	1,312,291,881
Bills purchased	**2,531,398,577**	1,153,687,046
	₱43,492,374,113	₱35,438,600,395

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. Outstanding receivables purchased by the Bank without recourse under the terms of the foregoing assignment agreement amounted to Php105.92 million and Php167.43 million as of December 31, 2010 and 2009, 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):

	2010					
	Corporate Lending	Consumer Lending	Residential Mortgages	Small business Lending	Others	Total
At January 1	₱894,728	₱2,004,154	₱2,453	₱28,187	₱343,250	₱3,272,772
Provision for impairment and credit losses (Note 14)	345,034	1,010,918	–	–	223,748	1,579,700
Write-off (Note 14)	(54,529)	(1,300,072)	–	–	(1,862)	(1,356,463)
Interest accrued on impaired loans	(15,535)	–	–	–	–	(15,535)
At December 31	₱1,169,698	₱1,715,000	₱2,453	₱28,187	₱565,136	₱3,480,474

(Forward)

	2010					
	Corporate Lending	Consumer Lending	Residential Mortgages	Small business Lending	Others	Total
Specific impairment	**₱941,857**	**₱–**	**₱–**	**₱–**	**₱–**	**₱941,857**
Collective impairment	**227,841**	**1,715,000**	**2,453**	**28,187**	**565,136**	**2,538,617**
	₱1,169,698	**₱1,715,000**	**₱2,453**	**₱28,187**	**₱565,136**	**₱3,480,474**
Gross amount of individually impaired loans	**₱1,809,063**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,809,063**

	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 impairment and credit losses (Note 14)	127,074	1,199,213	(6,887)	(18,463)	(115,830)	1,185,107
Acquired from merger	–	690,054	–	–	–	690,054
Write-off (Note 14)	–	(114,083)	–	–	–	(114,083)
Interest accrued on impaired loans	(6,201)	–	–	–	–	(6,201)
At December 31	₱894,728	₱2,004,154	₱2,453	₱28,187	₱343,250	₱3,272,772
Specific impairment	₱780,888	₱–	₱–	₱–	₱–	₱780,888
Collective impairment	113,840	2,004,154	2,453	28,187	343,250	2,491,884
	₱894,728	₱2,004,154	₱2,453	₱28,187	₱343,250	₱3,272,772
Gross amount of individually impaired loans	₱1,026,473	₱–	₱–	₱–	₱–	₱1,026,473

The following is a reconciliation of the individual and collective allowances for impairment and credit losses on loans and receivables (amounts in thousands):

	2010			2009		
	Specific Impairment	Collective Impairment	Total	Specific Impairment	Collective Impairment	Total
At January 1	**₱780,888**	**₱2,491,884**	**₱3,272,772**	₱743,842	₱774,053	₱1,517,895
Provision for impairment and credit losses	**231,033**	**1,348,667**	**1,579,700**	43,247	1,141,860	1,185,107
Acquired from merger	**–**	**–**	**–**	–	690,054	690,054
Write-off	**(54,529)**	**(1,301,934)**	**(1,356,463)**	–	(114,083)	(114,083)
Interest accrued on impaired loans	**(15,535)**	**–**	**(15,535)**	(6,201)	–	(6,201)
At December 31	**₱941,857**	**₱2,538,617**	**₱3,480,474**	₱780,888	₱2,491,884	₱3,272,772

Interest income on loans and receivables for the years ended December 31, 2010 and 2009 consist of:

	2010	2009
Receivables from customers	**₱4,478,792,688**	₱3,808,038,715
Unquoted debt securities	**23,753,954**	70,011,882
Interest accrued on impaired loans	**15,534,817**	6,200,627
	₱4,518,081,459	₱3,884,251,224

<u>BSP Reporting</u>

Of the total receivables from customers of the Bank as of December 31, 2010 and 2009, 68.63% and 79.34%, respectively, are subject to periodic interest repricing. The remaining peso receivables from customers earn annual fixed interest rates ranging from 2.78% to 18.50% and 7.77% to 12.19% in 2010 and 2009, respectively, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 5.00 % to 8.00% and 5.61% to 8.94% in 2010 and 2009, respectively.

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

	2010		2009	
	Gross Amount	**%**	Gross Amount	%
Loans secured by:				
Chattel	**₱7,186,981**	**16.52**	₱9,069,332	25.59
Real estate	**6,570,061**	**15.11**	6,078,153	17.15
Hold-out on deposit	**741,803**	**1.71**	382,563	1.08
Others	**6,641,219**	**15.27**	1,467,616	4.14
	21,140,064	**48.61**	16,997,664	47.96
Unsecured	**22,352,310**	**51.39**	18,440,936	52.04
	₱43,492,374	**100.00**	₱35,438,600	100.00

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

	2010		2009	
	Gross Amount	**%**	Gross Amount	%
Personal consumption	**₱17,224,808**	**39.60**	₱16,293,226	45.98
Wholesale and retail trade	**5,601,451**	**12.88**	5,875,788	16.58
Real estate, renting and business services	**4,076,445**	**9.37**	5,042,675	14.23
Agriculture, fisheries and forestry	**3,565,267**	**8.20**	456,410	1.29
Financial intermediaries	**3,491,587**	**8.03**	1,473,911	4.16
Manufacturing	**3,024,311**	**6.95**	2,825,245	7.97
Transport, storage and communications	**1,034,209**	**2.38**	948,038	2.67
Others	**5,474,296**	**12.59**	2,523,307	7.12
	₱43,492,374	**100.00**	₱35,438,600	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, 2010 and 2009, NPLs of the Bank not fully covered by allowance for credit losses follow (amounts in thousands):

	2010	2009
Total NPLs	**₱3,085,128**	₱3,748,669
NPLs fully covered by allowance for credit losses	**(1,654,788)**	(1,499,813)
	₱1,430,340	₱2,248,856

As of December 31, 2010 and 2009, secured and unsecured NPLs of the Bank follow (amounts in thousands):

	2010	2009
Secured	**₱1,367,703**	₱1,701,133
Unsecured	**1,717,425**	2,047,536
	₱3,085,128	₱3,748,669

10. Property and Equipment

The composition of and movements in this account follow:

	2010					
	Land	Buildings	Construction in Progress	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
As of January 1	**₱263,804,425**	**₱72,637,708**	**₱180,798,758**	**₱905,467,870**	**₱504,479,163**	**₱1,927,187,924**
Additions	**–**	**397,275**	**137,791,735**	**177,765,206**	**189,141,209**	**505,095,425**
Disposals	–	**(3,022,551)**	–	**(51,739,123)**	**(12,762,739)**	**(67,524,413)**
As of December 31	**263,804,425**	**70,012,432**	**318,590,493**	**1,031,493,953**	**680,857,633**	**2,364,758,936**
Accumulated depreciation and amortization						
As of January 1	**–**	**16,896,394**	**–**	**657,156,291**	**291,830,626**	**965,883,311**
Depreciation and amortization	**–**	**2,367,520**	**–**	**108,676,332**	**54,518,508**	**165,562,360**
Disposals	**–**	**(778,970)**	**–**	**(31,528,991)**	**(807,400)**	**(33,115,361)**
As of December 31	**–**	**18,484,944**	**–**	**734,303,632**	**345,541,734**	**1,098,330,310**
Net book value	**₱263,804,425**	**₱51,527,488**	**₱318,590,493**	**₱297,190,321**	**₱335,315,899**	**₱1,266,428,626**

	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	–	3,209,964	180,798,758	142,192,381	111,764,220	437,965,323
Additions from business combination	–	–	–	181,975,775	3,012,826	184,988,601
Disposals	(5,502,250)	(4,953,847)	–	(3,865,092)	–	(14,321,189)
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 business combination	–	–	–	143,412,296	–	143,412,296
Disposals	–	(2,009,640)	–	(2,274,093)	–	(4,283,733)
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

Construction in Progress pertains to the various expenditures incurred by the Bank for the construction of a building in The Fort Global City, Taguig.

In 2007, the Bank entered into a memorandum of agreement with FDC for the construction of a building in The Fort Global City, Taguig. It was agreed that the Bank will contribute cash to be used for the construction of the building being developed by FDC. In exchange for the cash contribution, the Bank will own certain commercial floors to be used as the Bank's office space.

11. Investment Properties

The composition of and movements in this account follow:

	2010		
	Land	Buildings and Improvements	Total
Cost			
At January 1	**₱806,243,939**	**₱373,101,714**	**₱1,179,345,653**
Additions	**66,052,538**	**80,924,798**	**146,977,336**
Disposals	**(109,176,003)**	**(39,330,768)**	**(148,506,771)**
At December 31	**763,120,474**	**414,695,744**	**1,177,816,218**
Accumulated depreciation and amortization			
At January 1	–	**123,207,317**	**123,207,317**
Depreciation and amortization	–	**35,131,053**	**35,131,053**
Disposals	–	**(8,567,375)**	**(8,567,375)**
At December 31	–	**149,770,995**	**149,770,995**
Accumulated impairment losses (Note 14)			
At January 1	**181,591,668**	**57,355,854**	**238,947,522**
Provision for (reversal of) impairment losses	**14,315,983**	**(40,170,678)**	**(25,854,695)**
Disposals	**(25,726,765)**	**(3,661,482)**	**(29,388,247)**
At December 31	**170,180,886**	**13,523,694**	**183,704,580**
Net book value	**₱592,939,588**	**₱251,401,055**	**₱844,340,643**

	2009		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱730,234,279	₱232,326,130	₱962,560,409
Additions	118,967,945	176,978,019	295,945,964
Additions from business combination	–	18,345,403	18,345,403
Disposals	(42,958,285)	(54,547,838)	(97,506,123)
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

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

The difference between the fair value of the asset upon foreclosure and the carrying value of the loan is recognized under 'Gain on asset foreclosure and dacion transactions' in the statement of income.

The aggregate fair value of the investment properties of the Bank amounted to Php1.08 billion and Php1.09 billion as of December 31, 2010 and 2009, respectively. Fair value has been determined based on valuations made by independent and/or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

As of December 31, 2010 and 2009, foreclosed investment properties still subject to redemption period by the borrower amounted to Php81.87 million and Php108.37 million, respectively.

Direct operating expenses from investment properties not generating rent income amounted to Php64.39 million in 2010 and Php107.02 million in 2009.

12. Other Assets

This account consists of:

	2010	2009
Security deposits	**₱287,822,237**	₱268,210,922
Prepaid expenses	**107,931,694**	56,005,839
Other repossessed assets	**75,648,102**	194,168,920
Returned cash and other cash items	**54,661,664**	38,794,658
Plan asset (Note 24)	**29,271,118**	43,046,710
Miscellaneous - net	**187,567,676**	674,492,827
	742,902,491	1,274,719,876
Allowance for impairment losses (Note 14)	**(116,798,998)**	(195,024,016)
	₱626,103,493	₱1,079,695,860

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

The movements in other repossessed assets follow:

	2010	2009
Cost		
As of January 1	**₱229,618,639**	₱228,394,185
Additions	**174,636,644**	144,969,434
Disposals	**(307,824,061)**	(143,744,980)
As of December 31	**96,431,222**	229,618,639
Accumulated depreciation		
As of January 1	**35,449,719**	26,125,692
Depreciation and amortization	**50,159,090**	33,744,637
Disposals	**(64,825,689)**	(24,420,610)
As of December 31	**20,783,120**	35,449,719
Accumulated impairment losses (Note 14)		
As of January 1	**58,657,529**	67,876,721
Reversal of impairment losses	**(1,634,292)**	(9,219,192)
Disposals	**(48,439,853)**	–
As of December 31	**8,583,384**	58,657,529
Net book value	**₱67,064,718**	₱135,511,391

13. Intangible Assets

As of December 31, 2010 and 2009, the Bank's intangible assets consist of:

	Goodwill	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost					
As of January 1, 2010	**₱919,254,184**	**₱154,625,698**	**₱40,433,000**	**₱277,405,395**	**₱1,391,718,277**
Acquisitions	**–**	**–**	**–**	**136,296,500**	**136,296,500**
Write-off (Note 22)	–	–	–	**(811,890)**	**(811,890)**
As of December 31, 2010	**919,254,184**	**154,625,698**	**40,433,000**	**412,890,005**	**1,527,202,887**
Accumulated amortization					
As of January 1, 2010	**–**	**3,592,914**	**3,369,417**	**57,600,720**	**64,563,051**
Amortization	**–**	**4,311,497**	**4,043,300**	**75,954,388**	**84,309,185**
As of December 31, 2010	**–**	**7,904,411**	**7,412,717**	**133,555,108**	**148,872,236**
Net book value	**₱919,254,184**	**₱146,721,287**	**₱33,020,283**	**₱279,334,897**	**₱1,378,330,651**

	Goodwill	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost					
As of January 1, 2009	₱150,211,812	₱–	₱–	₱106,875,036	₱257,086,848
Additions from business combination	769,042,372	154,625,698	40,433,000	–	964,101,070
Acquisitions	–	–	–	175,062,688	175,062,688
Write-off (Note 22)	–	–	–	(4,532,329)	(4,532,329)
As of December 31, 2009	919,254,184	154,625,698	40,433,000	277,405,395	1,391,718,277
Accumulated amortization					
As of January 1, 2009	–	–	–	651,282	651,282
Amortization	–	3,592,914	3,369,417	56,949,438	63,911,769
As of December 31, 2009	–	3,592,914	3,369,417	57,600,720	64,563,051
Net book value	₱919,254,184	₱151,032,784	₱37,063,583	₱219,804,675	₱1,327,155,226

The business combination between the Bank and AIGPASB Group in 2009 resulted in goodwill amounting to Php769.04 million and other intangible assets such as customer relationship and core deposits amounting to Php154.63 million and Php40.43 million, respectively (see Note 6). The goodwill has been allocated to the consumer business lending unit acquired from the AIG Group.

The business combination between the Bank and Ecology Savings Bank Inc. (ESBI) in 2003 resulted in goodwill amounting to Php172.80 million, which has been allocated to various branches acquired from ESBI. As of December 31, 2010 and 2009, the remaining goodwill amounted to Php150.21 million after the recognition of impairment losses in prior years.

Key assumptions used in value in use calculations
The recoverable amount of the consumer business lending and branch units have been determined based on value in use calculations using cash flow projections based on financial budgets approved by the management covering a five-year period. The discount rate applied to cash flow projections is 12.26% and 12.00% in 2010 and 2009, respectively.

Discount rates
Discount rates reflect the current market assessment of the risk specific to each CGU.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to exceed their recoverable amount.

14. Allowance for Impairment and Credit Losses

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

	2010	2009
Balances at beginning of year		
Due from BSP and other banks	**₱27,016,023**	₱45,186,318
AFS investments (Note 8)	**51,611,565**	50,061,096
Loans and receivables (Note 9)	**3,272,772,221**	1,517,895,292
Investment properties (Note 11)	**238,947,522**	243,759,963
Other assets (Note 12)	**195,024,016**	136,119,242
	3,785,371,347	1,993,021,911
Provisions charged to current operations (Note 9, 11 and 12)	**1,552,210,920**	1,237,230,547
Write-off of allowance on loans and receivables (Note 9)	**(1,356,463,396)**	(114,083,751)
Reversal of allowance on disposals of investment properties and other repossessed assets (Notes 11 and 12)	**(84,405,118)**	(14,650,720)
Write-off of allowance on other assets	**(25,970,869)**	–
Interest accrued on impaired loans (Note 9)	**(15,534,817)**	(6,200,628)
Acquired from merger	**–**	690,053,988
Balances at end of year		
Due from BSP and other banks	**27,016,023**	27,016,023
AFS investments (Note 8)	**47,214,550**	51,611,565
Loans and receivables (Note 9)	**3,480,473,916**	3,272,772,221
Investment properties (Note 11)	**183,704,580**	238,947,522
Other assets (Note 12)	**116,798,998**	195,024,016
	₱3,855,208,067	₱3,785,371,347

15. Deposit Liabilities

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 equivalent to 8.00% starting December 14, 2008 (under BSP Circular No. 632). As of December 31, 2010 and 2009, the Bank is in compliance with such regulations.

	2010	2009
Cash and other cash items	**₱2,027,569,060**	₱1,320,113,500
Due from BSP	**3,953,459,921**	6,333,301,778
	₱5,981,028,981	₱7,653,415,278

Of the total deposit liabilities of the Bank as of December 31, 2010 and 2009, about 61.73% and 64.67%, respectively, are subject to periodic interest repricing. The remaining deposit liabilities earn annual fixed interest rates ranging from 0.75% to 5.50% and from 1.25% to 5.88% in 2010 and 2009, respectively.

16. Bills and Acceptances Payable

This account consists of borrowings from:

	2010	2009
BSP	**₱97,369,300**	₱1,226,457,739
Outstanding acceptances	**60,772,125**	12,674,456
Banks and other financial institutions	**3,000,000**	718,505,106
	₱161,141,425	₱1,957,637,301

Bills payable to the BSP, other banks and other financial institutions are subject to annual interest rates ranging from 2.63% to 4.00% in 2010 and from 2.47% to 5.84% in 2009.

The Bank's interest expense on bills and acceptances payable amounted to Php74.97 million in 2010 and Php118.90 million in 2009.

17. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2010	2009
Accrued expenses	**₱448,103,918**	₱213,780,252
Accrued interest payable	**274,434,676**	197,441,929
Accrued other taxes	**30,925,313**	71,401,465
	₱753,463,907	₱482,623,646

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

18. Subordinated Debt

As of December 31, 2010 and 2009, the Bank's subordinated debt consists of (amounts in thousands):

	2010	2009
Lower tier 2 unsecured subordinated notes callable, with step-up interest, in 2016 in minimum denominations of ₱500,000 and in integral multiples of ₱100,000 thereafter, due January 2, 2021. Interest rate is at 7.50% per annum.	**₱1,500,000**	₱–
Lower tier 2 unsecured subordinated notes callable, with step-up interest, in 2014 in minimum denominations of ₱500,000 and integral multiples of ₱100,000 thereafter, due January 26, 2019. Interest rate is at 8.63% per annum.	**1,250,000**	1,250,000
	₱2,750,000	₱1,250,000

On July 2, 2010, the Bank issued Php1.50 billion lower tier 2 unsecured subordinated notes (the Notes) callable with Step-Up interest in 2016 in minimum denominations of Php500,000 and in integral multiples of Php100,000 thereafter, due January 2, 2021. Unless the Notes are previously redeemed, the Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date. The Notes bear interest at the rate of 7.50% per annum payable to each Noteholder for the period from and including the issue date up to, but excluding the optional redemption date of January 2, 2016 whether redemption is exercised or not. If the Notes are not redeemed prior to or on January 2, 2016, the interest will be reset at the Step-Up interest rate. The Step-Up interest 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 of 3.44% per annum. The Step-Up spread is defined as follows:

    Step-Up spread = 150.00% of the difference between the Interest Rate and 80.00% of the 5-year PDST-F on the Pricing Date, preceding then initial Issue Date, equivalent to 3.44% per annum.

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.

On July 25, 2008, the Bank issued Php1.25 billion lower tier 2 unsecured subordinated notes (the Notes) callable with Step-Up interest in 2014 in minimum denominations of Php500,000 and in integral multiples of Php100,000 thereafter, due January 26, 2019. Unless the Notes are previously redeemed, the Notes are repayable to the Noteholders 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 Noteholder 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.

The Bank's interest expense on subordinated debt amounted to Php163.40 million in 2010 and Php107.81 million in 2009.

19. Other Liabilities

This account consists of:

	2010	2009
Bills purchased - contra	**₱2,500,335,136**	₱1,094,968,863
Accounts payable	**570,457,694**	675,340,786
Deferred credits	**293,012,749**	215,573,940
Derivative liabilities (Note 5)	**35,980,034**	42,990,327
Withholding tax payable	**30,715,913**	10,246,987
Payment orders payable	**10,448,092**	489,447,643
Marginal deposits and letters of credit	**1,975,922**	3,057,109
Miscellaneous	**118,149,610**	33,780,940
	₱3,561,075,150	₱2,565,406,595

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):

	2010			2009		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Financial Assets						
Cash and other cash items	₱2,079,324	₱–	₱2,079,324	₱1,605,787	₱–	₱1,605,787
Due from BSP	11,556,018	–	11,556,018	6,322,227	–	6,322,227
Due from other banks	1,253,412	–	1,253,412	3,285,005	–	3,285,005
IBLR and SPURA	2,598,621	–	2,598,621	8,933,100	–	8,933,100
Financial assets at FVPL	4,598,479	–	4,598,479	1,487,102	–	1,487,102
AFS investments (Note 8)	1,525,896	14,492,525	16,018,421	533,632	14,490,926	15,024,558
Loans and receivables - gross (Note 9)	27,053,243	18,179,502	45,232,745	23,285,668	14,382,515	37,668,183
	50,664,993	32,672,027	83,337,020	45,452,521	28,873,441	74,325,962
Nonfinancial Assets						
Property and equipment	–	1,266,429	1,266,429	–	961,305	961,305
Investment property (Note 11)	–	844,341	844,341	–	817,191	817,191
Deferred tax assets	–	1,272,973	1,272,973	–	1,082,290	1,082,290
Intangible assets	–	1,378,331	1,378,331	–	1,327,155	1,327,155
Other assets (Note 12)	529,767	96,336	626,103	901,138	178,558	1,079,696
	529,767	4,858,410	5,388,177	901,138	4,366,499	5,267,637
	51,194,760	37,530,437	88,725,197	46,353,659	33,239,940	79,593,599
Allowances for impairment and credit losses on loans and receivables (Note 14)	–	–	(3,480,474)	–	–	(3,272,772)
Unearned discounts (Note 9)	–	–	(1,487,976)	–	–	(1,318,497)
	₱51,194,760	₱37,530,437	₱83,756,747	₱46,353,659	₱33,239,940	₱75,002,330

	2010			2009		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Financial Liabilities						
Deposit liabilities	₱62,191,369	₱4,281,326	₱66,472,695	₱38,984,443	₱20,800,403	₱59,784,846
Bills payable and acceptances payable (Note 16)	161,141	–	161,141	1,957,637	–	1,957,637
Cashiers' checks and demand drafts payable	299,478	–	299,478	822,254	–	822,254
Subordinated debt (Note 18)	–	2,750,000	2,750,000	–	1,250,000	1,250,000
Accrued interest, taxes and other expense (Note 17)	274,435	–	274,435	197,442	–	197,442
Other liabilities (Note 19)	618,862	–	618,862	1,210,836	–	1,210,836
	63,545,285	7,031,326	70,576,611	43,172,612	22,050,403	65,223,015
Nonfinancial liabilities						
Accrued interest, taxes and other expense (Note 17)	479,029	–	479,029	285,182	–	285,182
Other liabilities (Note 19)	2,942,213	–	2,942,213	1,354,571	–	1,354,571
	3,421,242	–	3,421,242	1,639,753	–	1,639,753
	₱66,966,527	₱7,031,326	₱73,997,853	₱44,812,365	₱22,050,403	₱66,862,768

21. Equity

Capital stock as of December 31, 2010 and 2009 consist of:

	2010	2009
Preferred stock - ₱10.00 par value convertible, nonvoting shares		
Authorized, issued and outstanding - 300,000,000 shares	**₱3,000,000,000**	₱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	₱6,873,528,100

On June 5, 2009, the SEC approved the Bank's amended Articles of Incorporation which contains the increase in authorized capital stock through the issuance of Php3.00 billion Preferred 'A' shares of stock (300,000,000 shares at Php10.00 par value). The Preferred 'A' shares 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 (surplus) 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 Php1.20 billion and Php0.80 billion, respectively. Also, on December 23, 2009, FDC and FDC Forex infused additional cash amounting to Php0.60 billion and Php0.40 billion, respectively. Preferred shares amounting to Php1.80 billion and Php1.20 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.

On May 27, 2010, the Bank declared cash dividends on its preferred stock amounting to Php67.50 million or Php0.225 per share payable to stockholders of record as of May 27, 2010. The cash dividend was approved by the BSP on August 9, 2010.

On February 8, 2011, the Bank received BSP approval for the following cash dividend declarations, which were not recognized as a liability as of December 31, 2010:

Date of declaration	Date of record	Class	Per share	Total amount
August 27, 2010	July 31, 2010	Preferred stock	₱0.225	₱67,500,000
November 25, 2010	October 31, 2010	Preferred stock	₱0.225	₱67,500,000

Capital Management

The Bank actively manages its capital to comply 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 Capital Adequacy Ratio (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 national government, 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 CAR 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 year 2010 and 2009, 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, 2010 and 2009 are shown in the table below (amounts in millions):

	2010		2009	
	Actual	**Required**	Actual	Required
Tier 1 capital	**₱9,322.70**		₱7,745.90	
Tier 2 capital	**3,288.49**		1,619.10	
Gross qualifying capital	**12,611.19**		9,365.00	
Less Required deductions	**1,996.85**		2,033.50	
Total qualifying capital	**10,614.34**	**₱2,400.00**	7,331.50	₱2,400.00
Risk weighted assets	**66,503.85**		53,702.27	
Tier 1 capital ratio	**11.02%**		10.60%	
Total capital ratio	**15.96%**	**10.00%**	13.70%	10.00%

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 BSP Circular No. 538. BSP No. 639 is effective starting January 1, 2011 as extended by BSP Circular No. 677 which is also issued in 2009. The policies and processes guiding the determination of the sufficiency of capital of the Bank have been incorporated to the Bank's ICAAP to comply with the requirements of the BSP. While the Bank has added the ICAAP to its capital management policies and processes, there were no changes made on the objectives and policies for the years ended December 31, 2010 and 2009.

22. Miscellaneous Expenses

Miscellaneous expenses consist of:

	2010	2009
Service charges, fees and commissions	**₱226,437,471**	₱162,685,547
Advertising	**213,176,597**	195,784,377
Security, messengerial and janitorial services	**161,841,461**	140,692,557
Brokerage fees	**151,665,748**	31,386,570
Postage, telephone, cables and telegram	**133,295,105**	148,535,243
Insurance	**126,736,675**	97,000,280
Transportation and travel	**109,491,932**	121,893,662

(Forward)

	2010	2009
Technological fees	**₱98,559,843**	₱141,629,135
Power, light and water	**70,869,877**	57,843,993
Stationery and supplies	**70,418,717**	73,613,254
Repairs and maintenance	**46,668,419**	46,606,508
Litigation expenses	**34,458,515**	47,723,218
Supervision fees	**28,710,295**	22,036,485
Entertainment, amusement and recreation	**26,305,052**	29,826,432
Management and other professional fees	**22,400,077**	75,879,399
Write off of capitalized software	**811,890**	4,532,329
Others	**114,598,915**	139,247,839
	₱1,636,446,589	₱1,536,916,828

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 (benefit from) 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 30.00% and the interest expense allowed as a deductible expense shall be reduced by 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:

	2010	2009
Current:		
Final tax	**₱111,548,080**	₱186,728,948
Regular corporate income tax	**47,974,205**	81,843,909
	159,522,285	268,572,857
Deferred	**(190,683,007)**	(220,516,268)
	(₱31,160,722)	₱48,056,589

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

	2010	2009
Deferred tax asset on:		
Allowance for impairment and credit losses	**₱1,156,562,420**	₱1,135,611,404
Unrealized foreign exchange loss (gain)	**98,065,750**	(19,723,120)
Accrued expenses	**68,332,292**	9,349,479
Accumulated depreciation of assets foreclosed or dacioned	**51,166,234**	47,597,111
Unamortized past service cost	**8,924,110**	5,968,801
MCIT	**–**	911,319
	1,383,050,806	1,179,714,994
Deferred tax liability on:		
Gains on asset foreclosure and dacion transactions	**67,739,922**	58,605,237
Excess of fair value over carrying value of net assets acquired from business combination	**33,556,667**	25,905,869
Net retirement plan assets	**8,781,335**	12,914,013
	110,077,924	97,425,119
Net deferred tax assets	**₱1,272,972,882**	₱1,082,289,875

The movements in NOLCO and MCIT follow:

NOLCO	2010	2009
At beginning of year	**₱–**	₱506,801,179
Used	**–**	506,801,179
At end of year	**₱–**	₱–

MCIT	2010	2009
At beginning of year	**₱33,914,150**	₱74,401,449
Used	**33,914,150**	32,408,524
Expired	**–**	8,078,775
At end of year	**₱–**	₱33,914,150

As of December 31, 2009, the Bank had unrecognized deferred tax assets on MCIT amounting to Php33.00 million.

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

	2010	2009
Statutory income tax	**₱533,849,864**	₱200,914,431
Additions to (reductions from) income taxes resulting from the tax effects of:		
Nondeductible expenses	**77,489,310**	83,960,138
FCDU income	**(363,240,386)**	(161,065,471)
Non taxable and tax-exempt income	**(172,328,395)**	(19,975,664)
Interest income subjected to final tax net of tax paid	**(73,928,284)**	(60,954,237)
Change in unrecognized deferred tax assets	**(33,002,831)**	(28,505,794)
Effect of expired MCIT	**–**	33,683,186
Effective income tax	**(₱31,160,722)**	₱48,056,589

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:

	2010	2009
Discount rate:		
At January 1	**10.87%**	15.84%
At December 31	**7.36%**	10.87%
Expected return on plan assets	**8.00%**	8.00%
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 are as follows:

	2010	2009
As of January 1	**₱153,749,601**	₱26,755,498
Past service cost	**30,910,554**	–
Current service cost	**25,555,862**	6,999,327
Interest cost	**11,934,629**	4,238,071
Benefits paid	**(9,674,776)**	(31,716,021)
Actuarial (gain) loss	**(16,273,168)**	32,963,459
Present value of defined benefit obligation assumed from business combination	**–**	114,509,267
As of December 31	**₱196,202,702**	₱153,749,601

In 2010, the Bank amended its retirement benefit plan to enhance the retirement benefits of its employees. The amendment in the retirement benefit plan resulted in recognition of past service cost amounting to Php30.91 million.

Changes in fair value of plan assets are as follows:

	2010	2009
As of January 1	**₱177,220,133**	₱64,456,373
Contributions	**38,957,746**	31,704,168
Expected return	**14,177,611**	3,222,819
Actuarial gains on plan assets	**15,966,346**	1,581,495
Benefits paid	**(9,674,776)**	(31,716,021)
Plan assets acquired from business combination	**–**	107,971,299
As of December 31	**₱236,647,060**	₱177,220,133

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

	2010	2009
Debt instruments	**75.42%**	81.05%
Equity instruments	**16.07%**	13.18%
Other assets	**8.51%**	5.77%
	100.00%	100.00%

The net plan assets included in 'Other assets' in the statements of financial position is as follows:

	2010	2009
Fair value of plan assets	**₱236,647,060**	₱177,220,133
Present value of funded obligation	**196,202,702**	153,749,601
Net plan assets	**40,444,358**	23,470,532
Unrecognized actuarial (gain) loss	**(11,173,240)**	21,066,274
Asset ceiling adjustment	**–**	(1,490,096)
	₱29,271,118	₱43,046,710

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

	2010	2009
Past service cost	**₱30,910,554**	₱–
Current service cost	**25,555,862**	6,999,327
Interest cost	**11,934,629**	4,238,071
Expected return on plan assets	**(14,177,611)**	(3,222,819)
Recognized actuarial gain	**–**	(175,912)
Asset ceiling adjustment	**(1,490,096)**	1,490,096
Expense recognized during the year	**₱52,733,338**	₱9,328,763

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

	2010	2009	2008	2007	2006
Fair value of plan assets	**₱236,647,060**	₱177,220,133	₱64,456,373	₱37,605,011	₱31,612,855
Present value of defined benefit Obligation	**196,202,702**	153,749,601	26,755,498	30,722,680	31,463,036
Net plan asset	**₱40,444,358**	₱23,470,532	₱37,700,875	₱6,882,331	₱149,819
Experience adjustments on plan liabilities	**17,973,037**	(7,727,697)	4,839,082	5,736,136	11,093,938
Experience adjustments on plan assets	**22,996,555**	(1,786,852)	1,053,049	(1,619,668)	698,752

The Bank's planned contribution for 2011 is Php39.29 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 Php273.79 million in 2010 and Php237.79 million in 2009.

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

	2010	2009
Within one year	**₱111,015,215**	₱105,768,434
After one year but not more than five years	**247,307,498**	171,513,846
More than five years	**280,737,629**	52,574,217
	₱639,060,342	₱329,856,497

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 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, and other credit accommodations granted under said circular (amounts in thousands).

	2010	2009
Total outstanding DOSRI accounts	**₱1,220,106**	₱171,990
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423	**0.20%**	0.02%
Percent of DOSRI accounts granted under BSP Circular No. 423	**1.28%**	0.46%
Percent of DOSRI accounts to total loans	**2.92%**	0.50%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**29.02%**	19.08%
Percent of past due DOSRI loans to total DOSRI loans	**0.62%**	6.74%

The following table provides the outstanding balance of transactions, which have been entered into with related parties (amounts in thousands):

	2010	2009
Loans and receivables		
FDC	**₱800,000**	₱–
FLI	**9,050**	14,375
Hocheng Philippines Corporation	**–**	115,141
Pacific Sugar Holdings, Corp.	**–**	14,188
	₱809,050	₱143,704

Deposit liabilities include deposits of related parties amounting to Php351.87 million as of December 31, 2010 and Php423.63 million as of December 31, 2009.

The income and expenses with respect to transactions with related parties follow (amounts in thousands):

	2010	2009
Interest income from loans and receivables	**₱12,975**	₱209
Interest expense on deposit liabilities	**983**	331

The remuneration of directors and other members of key management are as follows (amounts in thousands):

	2010	2009
Compensation and short-term benefits	₱87,967	₱46,016
Directors' fees	5,102	3,005
	₱93,069	₱49,021

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 Php10.06 billion and Php8.56 billion as of December 31, 2010 and 2009, respectively.

Government securities with a total face value of Php94.32 million and Php125.00 million as of December 31, 2010 and 2009, 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 as of December 31, 2010 and 2009, 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 to Php45.02 million and Php69.96 million in 2010 and 2009, 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 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 commitments and contingencies at their peso-equivalent contractual amounts arising from off-balance sheet items (amounts in thousands):

	2010	2009
Spot exchange sold	**₱4,378,553**	₱2,630,896
Trust department accounts (Note 27)	**10,058,308**	8,562,559
Unused commercial letters of credit	**561,099**	523,812
Outstanding guarantees	**92,686**	181,115
Inward bills for collection	**36,044**	57,825
Late deposits/payments received	**31,557**	26,920
Outward bills for collection	**7,729**	22,451
Items held for safekeeping	**4,748**	4,725
Unsold traveler's check	**430**	752
Others	**21,367**	23,022

29. Financial Performance

Earnings per share amounts were computed as follows:

		2010	2009
a.	Net income	**₱1,810,660,268**	₱621,658,180
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)	**300,000,000**	125,000,000
d.	Total weighted average number of outstanding common and convertible preferred shares	**687,352,810**	512,352,810
e.	Basic EPS (a/b)	**₱4.67**	₱1.60
f.	Diluted EPS (a/d)	**₱2.63**	₱1.21

The following basic ratios measure the financial performance of the Bank:

	2010	2009
Return on average equity	**19.80%**	10.80%
Return on average assets	**2.34%**	0.99%
Net interest margin on average earnings assets	**6.05%**	5.96%

30. Supplementary Information Required Under Revenue Regulations 15-2010

The Bank reported and/or paid the following types of taxes for the year ended December 31, 2010:

<u>Gross Receipts Tax (GRT)</u>

The Bank is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, commissions and discounts from lending activities at 5.00% or 1.00%, depending on the remaining maturities of instruments from which such receipts are derived, and at 7.00% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

Details of the Bank's income and GRT accounts in 2010 are as follows:

	Gross Receipts	Gross Receipts Tax
Income derived from lending activities	₱5,422,336,259	₱220,047,978
Other income	2,004,511,790	140,315,825
	₱7,426,848,049	₱360,363,803

Exclusive of the above GRT schedule, the Bank charged GRT to its clients amounting to Php4.60 million during the year.

Other Taxes and Licenses

For the year ended December 31, 2010, other taxes and licenses included in 'Taxes and licenses' account of the Bank consist of:

	Other Taxes and Licenses
Documentary stamps taxes	₱69,054,590
Local taxes	11,397,958
Fringe benefit taxes	3,361,063
Others	8,317,269
	₱92,130,880

Withholding Taxes

	Total Remittances	Balance
Withholding taxes on compensation and benefits	₱173,660,540	₱13,116,517
Expanded withholding taxes	50,664,919	6,407,809
Final withholding taxes	152,774,255	11,191,587
	₱377,099,714	₱30,715,913

Our Corporate Vision

To be a world-class bank anchored on service excellence in our chosen markets.

Our Corporate Mission

To create value:

For our chosen markets, by providing them with excellent service in the delivery of integrated and innovative products, responsive to their current and future financial needs, at the best value.

For our employees, by continuously providing them with opportunities to develop their full potentials and by giving recognition and rewards commensurate to their contribution.

For our community, by committing ourselves to improving the quality of life of those around us through the support for various charities and involvement in outreach activities.

For our regulators, by uncompromisingly adhering to the highest standards of business ethics and corporate governance.

For our shareholders, by managing the bank professionally and prudently to consistently achieve optimal possible returns.

Our Corporate Core Values

Integrity Excellence **Mutual Concern**
Teamwork and Individual Initiative **Corporate Pride**
Sense of Urgency **Creativity and Innovation** Leadership

2010 Annual Report

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