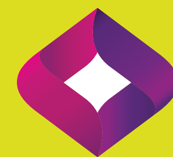

eastwest

> Your dream Our focus <

FastForward

Annual Report 2011

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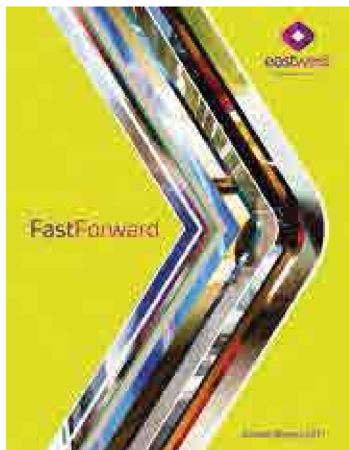
About EastWest Bank

East West Banking Corporation (EastWest) is a subsidiary of the Filinvest Development Corporation (FDC), one of the country's premier conglomerates, with business interests in real estate, banking, sugar and hospitality/tourism. It is also reentering the power business through FDC Utilities, Inc. Through the years, EastWest Bank has successfully capitalized on the financial strength and synergy of the business organizations under the Filinvest Group.

Since obtaining a commercial banking license from the Bangko Sentral ng Pilipinas on July 6, 1994, EastWest has emerged as one of the country's fastest-growing banks. It was among 16 banks in the Philippines that made it to the "Top 500 Biggest Banks in Asia" ranked by regional publication *The Asian Banker*, which described it as the "largest gainer with 191% increase" in 2010 versus 2009 income.

EastWest focuses on the corporate middle-market and the consumer segments. It is the sixth biggest credit card issuer in terms of receivables and is also the sixth largest auto credit provider in the country.

The Bank has a network of 150 branches and 146 automated teller machines (ATMs) nationwide as of May 18, 2012. It continues to develop innovative products and services and alternative delivery channels to address the evolving needs of its middle-market clients. Its ultimate goal is to become a "world-class bank anchored on service excellence."



Our Theme

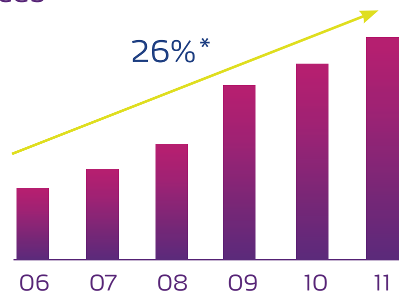
FAST FORWARD, the theme of this 2011 Annual Report, captures the spirit of EastWest Bank as a bank that is always "on the go" – moving fast to achieve its goals and aspirations, not just to be the fastest-growing bank in the country, but to be the preferred bank of its middle-market customers. In the past five years, EastWest has embarked on an aggressive rebirth – from refreshing its brand identity to laying the solid foundation for systems and processes that would ultimately result in better banking experience for clients. As the Bank gears up for the next phase of its growth, it will take faster and bigger strides to fulfill its ultimate goal of becoming a "world-class bank anchored on service excellence."

Financial Highlights

Total Resources

in billion Php

Year	Value
2006	30
2007	38
2008	49
2009	75
2010	84
2011	96

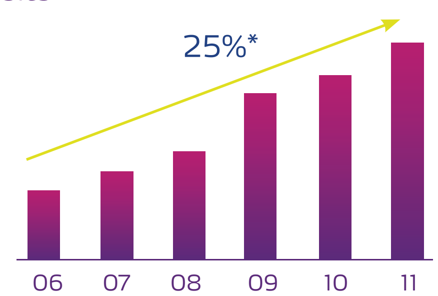


*Compounded Annual Growth Rate

Total Deposits

in billion Php

Year	Value
2006	25
2007	31
2008	39
2009	60
2010	66
2011	77

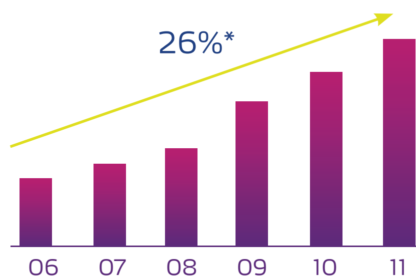


*Compounded Annual Growth Rate

Total Loans - Net

in billion Php

Year	Value
2006	15
2007	18
2008	22
2009	33
2010	40
2011	48

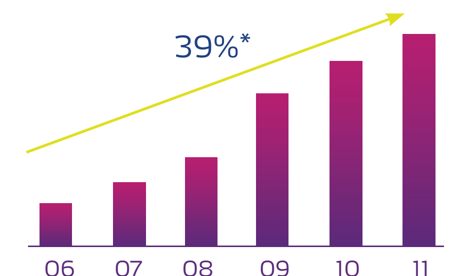


*Compounded Annual Growth Rate

Net Interest Income

in billion Php

Year	Value
2006	0.9
2007	1.4
2008	2.0
2009	3.5
2010	4.3
2011	4.9

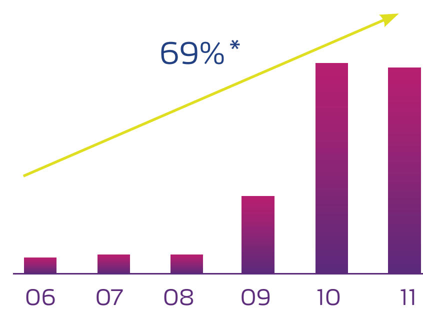


*Compounded Annual Growth Rate

Net Income

in million Php

Year	Value
2006	127
2007	137
2008	122
2009	622
2010	1,811
2011	1,732

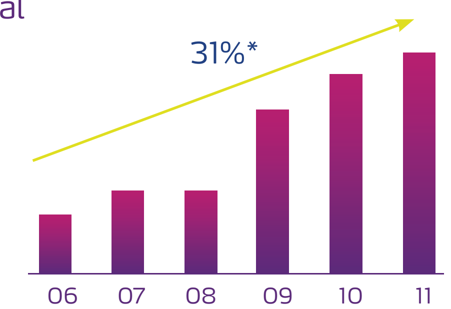


*Compounded Annual Growth Rate

Total Capital

in billion Php

Year	Value
2006	2.9
2007	4.1
2008	4.0
2009	8.1
2010	9.8
2011	11.2



*Compounded Annual Growth Rate

EastWest Bank continued to post healthy growth in its core deposits and lending businesses and ended 2011 with Php1.732 billion in net income. While lower by 4.3% from 2010, this was due to the lower trading gains of Php 587.2 million in 2011. Nonetheless, over the last five years, the Bank's net income grew at a compounded annual growth rate (CAGR) of 69%. Meanwhile, deposits grew by 15% while loans expanded by 19% from 2010, registering a CAGR of 25% and 26%, respectively, in a span of five years. As a result of the healthy growth in loans in 2011, net interest income was higher by 14% at Php4.9 billion and posted a five-year CAGR of 39%. Additionally, fees and commissions other than trading were up 11% from 2010 at Php1.8 billion. Total resources, at Php96 billion, were 15% higher than 2010 and registered a CAGR of 26% in five years. Capital adequacy ratio stood at 15.81%, well above the 10% set by the Bangko Sentral ng Pilipinas (BSP). These positive results continued to make EastWest Bank one of the fastest-growing banks in the country. For the second year in a row, it also ranked among the best-performing banks in the industry in terms of return on equity, which stood at 17%, and return on assets, at 2.02%.

Fast, fierce and feverish

The theme of our 2011 annual report is "Fast Forward." This is precisely how we intend to propel our business as we bring it to the next level of its growth and development.

We believe that the near-term operating environment is conducive to the accelerated growth of our institution. The Bank is currently in a position to take full advantage of opportunities. With the continued support of our customers and shareholders, and the dedication and hard work of all our employees, we are confident that we can achieve the goals we have set out for EastWest Bank.

Bases for optimism

What are the bases of our optimism? Why are we confident that the growth plans we have set out for the Bank can be successfully attained?

The renewed investors' confidence in the Philippines in the political as well as the economic fronts give us enough reason for optimism in the immediate future.

On the political front, the drive against corruption and determined efforts to increase transparency and accountability among public officials are encouraging local and foreign businesses to take a serious look at investing more in the Philippines. Although much still has to be done, we believe that what the government has started in these areas are already starting to bear fruit for the Philippines.

On the economic front, 2011 was a period of continued positive growth for the Philippines despite the economic turmoil in Europe, as well as the lack of significant progress in the US. Although the Philippines can never be fully insulated from what is happening abroad, the fundamentals of the domestic economy remain strong.

Contributing to this situation is the continued increase in overseas Filipino workers' remittances and the strong growth of the BPO sector. The low interest rates prevailing in the market, the low inflation rate, the controlled deficit, low debt-to-GDP ratio, and a significant amount of international reserves, are also good for our economy. These factors have led to a resurgence in investment activities and resulted in double-digit growth in bank lending, improved earnings of corporations, and increased values of Philippine stocks.

We believe the near-term operating environment is conducive to the accelerated growth of our institution.

The international investment community has also rediscovered the Philippines as one of the best places for growth and for investments. Confidence in the abilities of our monetary and fiscal authorities in managing the Philippine economy has been increasing, and this has led to a series of investment ratings upgrades for the Philippines.

Bullish backdrop

Another basis of our optimism is our belief that the important ingredients for the Bank's growth are substantially in place.

With respect to capital, in the last five years, our parent company, Filinvest Development Corporation, has been very supportive of our plans and has infused Php7.5 billion in fresh capital. This capital buildup program will be supplemented by our planned IPO this year, which should add at least Php2.5 billion to our capital account.

On our bid to grow our footprint, our acquisition of Green Bank and the Bangko Sentral ng Pilipinas' approval of branch licenses in restricted areas in 2011 gave EastWest Bank the opportunity to open more branches and become a truly nationwide bank with a very strong presence not only in Metro Manila but in all important provincial locations as well.

We have also invested a lot of effort, particularly in the last two years, in upgrading our IT infrastructure to enable us to serve our customers better. While this is still a work-in-progress and there are still certain key systems that need to be implemented, no bank in the Philippines has undertaken such a comprehensive and organization-wide overhaul of its IT systems. We expect this to make a difference in our ability to enhance our product and service delivery capability. We believe these factors definitely will propel and quicken the pace of growth of the Bank in the coming years.

The challenge

As we move forward, our challenge is to encourage EastWest Bankers to seize all the opportunities for growth advancement and to implement our growth plans effectively. This will entail all members of the Bank to have the courage and the will to go forward boldly towards attaining our common goals.

For EastWest Bankers to become high achievers, the Bank will invest heavily on training. We will do this, not only to upgrade the technical competencies of our people, but for them to become more effective team leaders. At the same time, we hope to create a Service Culture that would be significantly better than other institutions. Ultimately, these will benefit our customers as we strive to serve them more efficiently and effectively.

Support of our partners

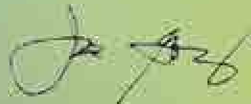
Thanks to the tireless efforts of EastWest Bankers and our senior management team, our plans to become the fastest-growing bank are on track and our ability to deliver is gaining more traction. While we expect the economic conditions in the markets to remain challenging, the Board of Directors has utmost confidence that the Bank's senior management and employees will continue to deliver superior performance.

Moving forward, with the continued support of our customers, our shareholders and our employees, we are confident that your Bank can successfully attain its growth plans. Hard work and determination will be a major force in banking. Within the next three to five years, we hope to see EastWest Bank operating at a much higher level and significantly different from what you see today. By then, we should be an organization that is much bigger in terms of individuals working in the Bank, with a much larger nationwide footprint, with branches from the northernmost tip of Luzon to the southernmost point of Mindanao, and asset size several times bigger than what we have today.

In the past, we have proven we can grow, and we have all the components and resources to make our plans come true. But to realize these plans, EastWest Bankers will need a greater sense of community and a unified organizational purpose. With your commitment to our common goals, your dedication, enthusiastic participation, active learning and leadership of your respective teams, we should be able to achieve things way beyond our wildest dreams.

Looking back at our humble beginnings as a commercial bank 17 years ago and looking ahead into our aspirations as a universal bank, I consider it a great privilege to serve as your Chairman and be part of this transformation. To all who share our passion for serving and our optimism for meeting the challenges that lie ahead, we express our thanks for your encouragement and support.

We look forward to serving you in 2012.



JONATHAN T. GOTIANUN

Breaking into the major league

There has been a dearth of initial public offerings (IPOs) of banks in the Philippine stock market for a long time. The last bank to debut on the Philippine Stock Exchange was International Exchange Bank (iBank) in 2004. So to President and Chief Executive Officer Antonio C. Moncupa, Jr., who was Chief Finance Officer of iBank, the planned debut of EastWest Bank on the Philippine Stock Exchange in 2012 is a fresh comeback.

It took the 17-year-old Bank five years of aggressive branch expansion, intensive training and culture building among its staff, investment in infrastructure, and balance sheet cleanup, among other things, to get to this growth stage. From the look of its recently refreshed brand identity and the spirit that pervades among its people, it is obvious that EastWest Bank is a bank in a hurry to grow.

In this interview, Mr. Moncupa talks about the Bank's looming entry into the "Major League" and how it is moving fast forward.

In the 2006 Annual Report, your first since you assumed the helm of the Bank, you unveiled a five-year plan where EastWest Bank's strategy was to "Focus and Differentiate." How did you fare against this plan?

I just want to clarify that the strategy was a collective blueprint of the management team and was based on the guidelines set by the Board of Directors. In that five-year plan, we envisioned a bank that would cater to very specific markets, particularly the consumer and middle markets. We have done well on what we set out to do and we are pleased with our financial performance.

In 2011, we sustained our financial results as one of the best performing banks in the industry in terms of return on assets and return on equity, just like in 2010. While we earned substantially less trading income in 2011, we still managed to post a return on equity of 17% and return on assets of 2.02%. This is because of sustained improvement in core earnings, specifically, net interest income and fees. Our operating expenses remained under control, and credit costs were much lower in 2011. Broadly, the Bank was able to more or less execute the five-year plan. We think we did much better than what we planned for.

Your 2011 bottom line suffered from a more than 50% decline in trading gains. Have you anticipated this would happen?

Yes, in a way that we did not expect a repeat of 2010 trading gains. We thought that the low level of interest rates and stable monetary policy regime will make it difficult for banks to generate a lot of trading income. While we will not be shy to take advantage of any trading opportunity as it presents itself, we have always held that EastWest will be built on its core banking business of deposits and loans.

If you place the Bank alongside its peers and compare its performance in terms of net interest income, the growth of the fee-based business in spite of all the changes that had happened, the way we controlled our operating expenses and our credit losses, EastWest Bank would still compare quite favorably.

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

The President Speaks

At the time you were preparing your five-year plan, you did not anticipate a global financial crisis would be happening in 2008. Did the global crisis throw you off in some way?

No, we did not anticipate the so-called global financial crisis will affect our efforts in a major way. When we were drawing the five-year blue print, the Philippines was just shaking off the effects of the 1997 Asian financial crisis so there was simply no reason for the country to have another crisis. The economy has just undergone a de-leveraging. In fact, as you could see, the present crisis is mostly confined to the West, particularly the US and Europe.

In fact, in a way, this so-called "crisis" even gave us an opportunity. While others chose to remain safe and backed out from challenges because of the grim global outlook, we at EastWest Bank were a bit more optimistic as to the macro economic conditions. This is how we were able to aggressively bid and eventually acquire AIG PhilAm Savings Bank in 2009.

We thought then, as we still think today, that the conditions for a crisis to happen was not present in the Philippines. Most, if not all, financial crises were a result of over-leverage and bursting asset bubbles. Given the low loans-to-deposit ratio of Philippine banks then and even now, relatively low equity-to-total asset ratios and high capital adequacy ratios, there was simply no asset bubble to prick.

So with the planned IPO of EastWest Bank, do you think your reading of the market is correct?

In terms of timing of the IPO, so far, it appears to be the case. The stock market is in its historical record highs. And bank stocks are flying high. This is generally considered a positive endorsement of the Philippine economic prospects. Banks normally benefit from positive economic growth prospects.

That we can already think of having an IPO after only five years demonstrates that our reading of the banking market is correct. The good thing about EastWest that many people do not know is that we have the biggest proportion of higher yielding consumer loans to corporate loans among commercial/universal banks. Ours is close to 50-50 while the bank with the next biggest consumer portfolio hovers at only around 30-70 (30% consumer and 70% corporate loans).

This gives us a lot of leeway in spite of the fact that we are not a big bank. It allows us to compensate for our lack of scale. We have one of the highest, if not the highest, net interest margins in the industry. Our core earnings from loans and deposits have been growing nicely so we have the ammunition to leverage that core earnings in a bolder way. For instance, we are probably one of the more aggressive banks in terms of increasing our branch network. EastWest got 75 of the total 162 new branch licenses in the eight restricted cities in Metro Manila that the BSP recently granted. Given that branching in restricted areas is closed until 2014, by the time we use all our existing licenses, EastWest will have the fifth-largest branch network in the restricted areas. This economic zone has more than 70% of the country's deposits. And yet, we believe, we were able to maintain a conservative approach to risk taking, most especially in credit risks.

Yes, how crucial is the IPO to your growth strategy?

The IPO is an important component of our growth plans. While there are many ways to raise capital, the IPO, in our view, communicates strong messages. Specifically, that we are prepared to be more transparent on how we do things. A listed company requires more disclosures. We are prepared to subject ourselves to more stringent governance rules. Although we believe we adhere to good governance practices, a listing is a strong commitment to do that.

Being listed also gives the Bank more prominence. The IPO supports our quest for relevance as we get the capital to execute on an aggressive growth plan. The IPO will also give us more flexibility – we will have another currency for possible mergers and acquisition deals.

What made you say you are ready to enter the major league? How did you prepare?

At this point, we have secured the licenses that will give the Bank the branch infrastructure that can compare to the top 8 banks in the country. The EastWest organization is getting more confident as a result of above-industry growth rates and improvements in the last five years, culminating in top tier operating results finishes in the last two years. Of course, this is a continuing effort. However, we believe that if we remain focused on the important things, we should remain competitive. And in EastWest, this means focusing on the organization and our people, good governance and results oriented execution.

So how would you draw investors to your IPO? What unique story can you offer?

The EastWest story is a growth story. The EastWest stock is not an income stock in the sense that people can expect big dividends. While we plan to declare dividends, we don't think that should be the reason people should invest in our stock.

We think that investors should be looking more to participate in the growth of the Bank. We want to communicate that while we are not a big bank, we were able to build something in the past five years that could serve as a take-off point to be a more relevant bank. We want to show that we know how to grow. This is a dash-to-scale-up story.

So scale will be the Bank's defining strategy in winning the war?

Scale is definitely one important component. It is not the whole story though. We think we are different from other banks because we are very focused on what we do. We think our consumer and mid-market focus will propel the Bank to growth and profitability. As a universal bank, we will be in major market segments and will offer practically all the mainstream products. However, we intend to keep our consumer and mid-market focus.

The next two years will be more difficult in terms of generating above-industry earnings. We will be in a fast forward mode to grow our national footprint of branches. That will cost a lot of money and put some pressure on profitability. But definitely, it will make EastWest among the top eight banks in terms of branch network, eventually propelling the Bank to grow and become more profitable. One step back and two steps forward!

Of course, we have to continuously try to find ways to engage our people. In our view, this is the most important component to stay competitive. One key initiative we have is training through the EastWest Bank Academy.

More than anything, we think what is more important is having engaged and motivated people and building a results oriented culture. In the long run, we believe, this is the only way we will be able to sustain growth and profitability. Even if we grow, size will not help us much if we are not able to sustain a culture where talented, motivated, and engaged people enjoy working in.

How do you see the next three years?

We have been very bullish in the past five years and will continue to do so in the next three years. The Philippines continues to enjoy solid fundamentals. We don't see any bubbles forming. Our challenge is to grow at a faster pace than the economy is growing. If we are able to fulfill our brand promise, we are confident we will be a much, much stronger bank. If we are successful in communicating these things, the business will come. Then we will be much more prepared for the next phase.

And what is the next phase?

Once we have reached the scale commensurate to our branch infrastructure of around 350 branches and more than Php20 billion in capital, we have to start thinking of what we will do next. At that time, we foresee that we will need to broaden our reach or expand our market segments without giving up the consumer and middle market character of the Bank. Wholesale banking and wealth management beckon. For now though, we have to focus more intently on our consumer and mid-market businesses and in further strengthening our organization.

Branch Banking

For EastWest Bank, 2011 presented more opportunities for growth and demonstrated its creative tenacity even in the face of declining interest rates and fever-pitch competition in the banking industry.

Overwhelming expectations of a China-led regional slowdown, lingering debt issues in Europe and lukewarm economic prospects in the United States notwithstanding, the Philippine banking industry continued to sustain its momentum in 2011. Robust remittances from overseas Filipinos spurred banking activity, driving up loan volumes to double-digit growth levels.

As more overseas money found their way into the local banking system through consumer loan products and higher deposits, banks also shifted to offering high-yielding treasury and trust products such as fixed income securities, foreign exchange trading, special deposit accounts, and unit investment trust fund (UITF) to further boost their profitability levels.

For EastWest Bank, 2011 presented more opportunities for growth and demonstrated its creative tenacity even in the face of declining interest rates and fever-pitch competition in the banking industry.

BRANCH BANKING

EastWest Bank's Retail Banking and Operations continued to make progress in its deposit-generation initiatives in 2011. During the year, the Bank concentrated on enhancing customer experience, expanding branches and launching new products.

Customer Focus

As the needs of customers change, EastWest Bank is looking toward the future and tailoring its offerings to reflect how people want to bank today.

To widen our nationwide footprint, the Bank opened nine new branches in 2011. Of these, three were in Bangko Sentral ng Pilipinas-restricted areas, namely: 168 in Divisoria, Manila; Magallanes and Pasong Tamo, Makati City. The other six branches were opened in unrestricted areas: Butuan, Ozamiz City, General Trias in Cavite, San Pablo in Laguna, Iloilo Iznart in Iloilo City, and Burgos Circle in the Fort, Taguig City. By early 2012, the Bank would have opened another 28 branches.

Increased presence helped grow our total deposit level by more than Php10 billion in 2011 from the previous year's total. This was aided by the "Fill up or Shop" deposit generation promo.

To further heighten our customers' branch banking experience, EastWest Bank embarked on a sales transformation training program in all of our branches in 2011. Called the BEST (acronym for "Branch Excellence through Sales Transformation"), the program aimed to embed the culture of cross selling of all our products at the branch level.

Enhanced Offerings

EastWest Bank also enhanced its Cash Management offerings with the launch of Check Collect, a check pickup facility that especially caters to our health maintenance organization (HMO) clients. The Bank also partnered with VISA for its Debit Card launched in October 2011. In line with this, the Bank acquired a new switch to support the specific needs of Debit Card users.

Fast Forward

EastWest Bank continues to enhance its retail banking operations, which contributed Php116 million in profit before taxes in 2011.

To expand our presence in step with our growth strategy in the next three years, we plan to open 100 new branches (mostly in restricted areas) in 2012, upon approval of the Bangko Sentral ng Pilipinas. In 2011, the Bank has already obtained licenses to open 75 branches in restricted areas.

In addition to growing our footprint, the Bank also plans to unveil new banking products that meet our customers' needs and help reach their goals. Our branches will also undergo renovations to be consistent with the refreshed brand identity of the Bank.

100

Number of new branches to be opened by EastWest Bank in 2012, in step with its strategy to grow its nationwide footprint and bring the Bank closer to its customers

Consumer Lending

Consumer Lending provides a complete suite of consumer loans which include credit cards, personal and salary loans, mortgage and auto loans.Its acquisition strategy includes having an extensive reach through the Bank's growing branch network; and accredited third-party service providers, real estate developers and auto dealer partnerships. The Bank also established several business centers nationwide. Whether buying a new car or a home, EastWest customers know we offer banking solutions to help them achieve their dreams.

The Bank will continue to streamline its processes and enhance policies and procedures to hasten its current turnaround time on credit approval.

CREDIT CARDS

In 2011, EastWest Bank ranked sixth among the country's 12 major credit card issuers in terms of credit card receivables. Full-year billings rose by 26% versus the industry rate of only 16% based on data from the Credit Card Association of the Philippines (CCAP). With its 19% increase in receivables outpacing the industry's 11% growth rate, EastWest Bank continues to increase its market share and become a formidable force in the credit card industry.

The Bank was able to further drive card utilization in 2011 through intensified usage promotions such as Instant Treats, in which cardholders enjoyed free treats from various merchants. These merchant partnerships allowed the Bank to compete head-on with other major credit card issuers for a greater share of cardholder spending.

To boost retail spending, the Bank also launched various installment loan programs such as Insta-Cash, Balance Transfer, Convert-to-Installment and 0% Installment in its partner merchants, giving cardholders greater financial flexibility.

Portfolio management initiatives were also implemented to maximize the revenue potential of the existing credit cardholder base. The Bank also

expanded its credit card suite with the addition of the Hyundai MasterCard, a co-brand credit card in partnership with Hyundai Asia Resources, Inc. catering to the affluent lifestyle of Hyundai car owners. The card was developed in a record time of two months.

Even with the significant growth in billings and receivables, the Bank's portfolio delinquency rate continues to be lower than the industry rate. This was due to enhanced underwriting of card applications through the implementation of the application scorecard, better collection strategies and risk management.

In the coming years, EastWest Bank will continue to offer more programs that will give greater value and introduce new products tailor-fit to the needs and lifestyle aspirations of its target market.

AUTO LOANS

The calamities in Japan and Thailand caused supply chain bottlenecks which consequently dampened the growth of the auto industry in 2011. Despite this, EastWest Bank saw its gross Auto Loans portfolio rising 54% from the previous year. This robust performance enabled the Bank to place sixth in the industry in terms of auto loans.

Overall growth was boosted by sustained financing programs with major auto dealers, the three-hour turnaround time, a celebrity endorsement and a nationwide free gas promo that led to increased public awareness. The Bank also opened business centers in Cebu, Davao, Pampanga, Dagupan and Batangas to further strengthen its auto loans business.

The Bank will continue to streamline its processes and enhance policies and procedures to hasten its current turnaround time on credit approval. It will also continuously improve staff productivity to better service its customers.

54%

Growth rate of EastWest Bank's Auto Loans gross portfolio in 2011 from the previous year

MORTGAGE LOANS

Fresh from its reorganization, the Bank's Mortgage Loans generated a 36% increase from 2010 bookings.

However, as it boosts its workforce to handle various loan processes, set up distribution channels to reach new loan applicants and enhance its systems and procedures, the Bank is confident of capturing a significant share of the mortgage loan market in the coming years.

Corporate Banking & Treasury

EastWest will also continue to pursue a loan portfolio mix of 40-40-20 of consumer, mind-sized businesses and big corporates, respectively.

Our Corporate Banking and Treasury lines of business deliver innovative and client-specific solutions that leverage EastWest Bank's expertise in treasury management, capital markets and international products and services.

CORPORATE BANKING

In 2011, the Bank continued its efforts to fine-tune its corporate lending business with special focus to cater to the mid-sized businesses. The corporate banking organization is completing its consolidation program which entails expanding its geographical reach and increasing the competencies of its relationship officers. It opened a new lending center in Greenhills, San Juan and will expand its Mindanao lending center.

All these efforts are in preparation for a serious loan portfolio expansion in 2012 to complement the Bank's branch expansion. The Bank expects to more than double its relationship officer corps in 2012 and further expand its lending activities both in Metro Manila and in key cities nationwide.

While the focus remains geared towards the mid-sized corporates, the Bank continues to allot a portion of its portfolio to big corporate borrowers. It will also continue to pursue a loan portfolio mix of 40-40-20 of consumer, mid-sized businesses, and big corporates, respectively.

EastWest registered a modest 7% growth in its corporate loan portfolio in 2011.

TREASURY

Earnings from EastWest Bank's treasury operations dipped in 2011 largely due to a decline in trading gains. This resulted from the continuous drop in interest rates which translated to tighter margins. Overall, however, Treasury's trading performance remained robust after adjusting for one-time gains in 2010. And with prudent balance sheet management, the Bank's liquidity ratio stood at 43% by end-2011.

The Bank maintained its strong presence in the foreign exchange and global debt trading markets, allowing it to reap trading gains at minimized risks wherever possible.

Despite the global uncertainties that affected the Bank's trading performance, 2011 turned out to be a milestone year for EastWest Bank's Treasury. The Bank accessed competitively priced international wholesale funding markets, which complemented its customer deposit funding. The Bank also worked closely with partner banks to deepen bilateral credit lines. This enabled the Bank to flex its financial muscle in implementing trading strategies more effectively.

As interest rates continue to hit rock bottom here and abroad, trading activity will remain challenging for many banking industry players. Treasury will have to pursue its efforts to drive more innovation and diversify into new markets and instruments so it can take advantage of global market opportunities.

43%

The Bank's liquidity ratio by end-2011.

Support Initiatives

EastWest Bank recognizes the important role our people play in the Bank's success and strives to create a working environment that fosters their optimal performance.

Helping drive EastWest Bank's performance in 2011 are its support units, namely the Human Resources, the Information Technology (IT) and the Bank Marketing and Corporate Communications. These units played a pivotal role in attracting new talent and honing staff skills, building IT systems and infrastructure, and carrying out branding and marketing initiatives.

HUMAN RESOURCES

EastWest recognizes the important role our people play in the Bank's success and strives to create a working environment that fosters their optimal performance, thus delivering excellent service to our customers and benefiting all stakeholders.

In recent years, a great deal of energy has been devoted to transforming the culture of the Bank. Skills training and talent management initiatives have been aligned to support the development of our employees, and rewards and compensation remain competitive ensuring the attraction, retention and motivation of employees.

To support our growth, Human Resources hired 889 new employees in 2011, bringing our total workforce to 2,789, 10% higher than in 2010. We were able to invigorate our hiring process by using online recruitment channels for external job postings, partnering with top and targeted universities for campus job fairs and mounting two Recruitment Camps.

Human Resources also developed the HR Mandate and Team Charters to provide a clear direction for the entire unit. Initiatives included mapping out a hiring plan for the Bank's Office Development Program and On-the-Job Training Program; implementing a streamlined and more objective job promotions process and improving the personnel movement processes of the Bank. The Bank also provided career advancement opportunities within the organization, ran learning sessions and team building events to build synergy across various bank units.

10%

Increase in EastWest Bank's workforce in 2011 from 2010 level

Support Initiatives

In addition to raising EastWest Bank's efficiency, these enhancements will effectively connect various customer-facing elements of the Bank, ultimately benefiting customers through a seamless banking experience.

INFORMATION TECHNOLOGY (IT)

EastWest believes that a sound information technology platform is important in successfully executing its strategy to become a leader in customer service. Thus it continues to upgrade and strengthen its existing IT platform to achieve maximum operational efficiency. Leveraging on its size relative to larger banks, the Bank has the flexibility to adapt to changing technologies.

In 2011, it implemented various automation projects to support the Bank's strategy to move fast forward. These include the enhancement of the cash management platform with the new ATM switch and debit card as additional payment channels.

It also adopted Anti-Money Laundering and Basel Systems for regulatory compliance; and implemented loan management support systems such as customer on boarding, customer acquisition, central liability, collections

and recovery systems to support the loan portfolio growth. An Inward Check Clearing, Signature Verification and Predictive Dialing Systems, and treasury and capital markets solution were set up, resulting in significant increase in productivity.

EastWest is slated to roll out more IT-related initiatives in 2012 to strengthen the IT infrastructure of the Bank, in view of the growth track it is pursuing. These new systems will be further harmonized with the installation of an enterprise content management system that would lead to a paperless workflow and translate to reduced turnaround times and operating costs.

In addition to raising EastWest's efficiency, these enhancements will effectively connect various customer-facing elements of the Bank, ultimately benefiting customers through a seamless banking experience.

MARKETING AND COMMUNICATIONS

Amid the frenetic pace of activities in the banking industry in 2011, EastWest Bank managed to increase its share of voice by achieving several milestones in its marketing and communications campaigns.

Among the major initiatives in 2011 was the launching of the new brand identity – new logo, new corporate colors and new tagline, "Your Dream Our Focus". The rebranding exercise involves the rollout of tangible applications in the form of new branch signages, product and promo advertising campaigns and uniforms.

Another milestone was the launch of the EastWest Visa Debit card, which can be used to pay for items at point-of-sale (POS) and online sites, receive funds from anyone worldwide, and withdraw cash from ATMs. The Bank also launched the "Dream Big Win Big" raffle promo, a unique Bank-wide promo to introduce the new brand marks.

In partnership with the Bangko Sentral ng Pilipinas (BSP), Bank Marketing Association of the Philippines (BMAP), and other banks, EastWest also participated in the Banking On Your Future (BOYF) Kiddie Account Program. The program was conceived in support of BSP's advocacy to promote financial literacy among schoolchildren.

Branding for the Future

EastWest Bank commissioned Singapore-based international branding expert FutureBrand for its rebranding project in 2011. The result is a fresh new brandmark that is unique from other bank logos. Purple, magenta and spring green, symbolizing renewal and fresh growth, are the Bank's new corporate colors. The new logo was created from two arrows representing the East and the West, coming together to symbolize the relationship between the bank and the customer. The center of the logo is in the shape of a diamond, symbolizing the value that we create in the lives of our clients though our products and services.

A look into the future

Recognizing the dynamism of the banking industry and in line with its goal to continuously enhance value for its stakeholders, EastWest Bank has put in place a robust Enterprise Risk Management (ERM) approach that is fully integrated in its strategic planning, execution and day-to-day operations.

The ERM is designed to identify potential risks that may affect the Bank, and manage it according to its risk appetite. Based on well-established governance processes, the approach relies on both individual responsibility and collective oversight, supported by comprehensive reporting. It is in line with the risk management mandate for efficient and effective governance of credit, market, liquidity and operational risks because of its disciplined approach in the identification, measurement, control, monitoring and communication of these risks across the Bank.

Risk Governance Structure

The Risk Management Committee (RMC), through policy institution and oversight, assists the Board of Directors (BOD) in managing the Bank's risk-taking activities. The RMC reports to the BOD the overall risk exposure and the effectiveness of its risk management practices. Under the Risk Management Charter, the RMC is also tasked with the review and approval of principles, policies, strategies, processes and control frameworks on risk management. It also recommends to the BOD any necessary modifications or amendments to risk-related strategies and policies.

The Risk Management Division (RMD) works in coordination with the various units to identify, measure, monitor and control the risks affecting the Bank. The RMD is an independent division that reports directly to the RMC. Each business unit, while working closely with RMD, is still responsible for decisions regarding its business risk strategy, policies and controls.

In line with the Bank's thrust to improve and evolve its capital management capability, it has focused on enhancing the processes concerned with risk identification, measurement and materiality assessment, and capital stress testing and planning. This is to coincide with the Bangko Sentral ng Pilipinas' (BSP) 2014 implementation of the Basel III standards promulgated by the Bank for International Settlements (BIS).

Risk Classification

Risk is inherent to the business of banking, particularly in its lending, deposit-taking and capital markets activities. The Bank deals with the following types of risks in its day-to-day operations:

Credit Risk

Credit risk is managed through policies and procedures that effectively identify, measure, monitor, control and report the credit risk exposures of the Bank. By further integrating credit risk management into the various business units' processes, the Bank has continuously improved on its identification and quantification of risks inherent in its credit transactions.

In the coming years, RMD will be developing loss models that will assist the Bank in fully adopting the Internal Ratings Based (IRB) Approach to capital management. This will allow the Bank to target the appropriate Capital Adequacy Ratio (CAR) relative to the unique risks it assumes – a vast improvement from the current Standardized Approach that does not take into account the varying nature of risks taken up by different banks.

These models will be developed in close coordination with the business units and will be applied to each of the credit products of the Bank. These will also enhance the monitoring and control of credit risk levels of the Bank and its various units.

Market Risk

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 works with the Treasury Group to identify and monitor market risks throughout the Bank, as well as to define market risk policies and procedures. RMD has been successful in the implementation of the following processes:

- Establishment of 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.

In line with the Bank's thrust to improve and evolve its capital management capability, it has focused on enhancing the processes concerned with risk identification, measurement, and capital stress testing and planning.

Risk Management

RMD is continuously undergoing validation and improvements of the models being employed, namely, Value-at-Risk (VaR), Earnings-at-Risk (EaR), interest rate sensitivity analysis, and foreign exchange risk. Enhancements to these tools will provide the Bank with more accurate and efficient information on its market risk exposure that will aid in its preparation for future adoption of Internal Models Approach (IMA) for market risk management.

Liquidity Risk

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).

Liquidity risk management activities are centralized within the Treasury Group. RMD periodically performs simulated stress tests to assess the Bank's ability to withstand a prolonged liquidity problem.
The Bank is improving the tools employed in the measurement, monitoring and control of liquidity risk in line with the adoption of Basel III standards ahead of the BSP implementation in 2014.

Operational Risk

A Board-approved operational management framework and limit structure tailored for each business, operating, and governance units are in place and implemented across the Bank. The framework guides everyone in the Bank to manage operational risk by adopting a uniform and structured methodology of risk identification, assessment, mitigation, monitoring and reporting that will help business and operating units to manage and maintain risk exposure within Board-approved limits.

The framework is likewise the basis of policy making bodies and RMD in reviewing and providing clearance to various operational policies and procedures in the Bank. This will ensure its consistency with the framework and the adequacy of prescribed internal controls that has a good balance of directive, preventive and detective controls.

Operational risk management continues to be well established throughout the Bank, which led to a more efficient use of resources and an improvement in the organizational escalation and reporting of operational risk. The Bank's operational risk management practices continue to evolve and mature in pace with the Bank's growth and the complexity of its activities.

The Bank also utilizes operational risk management tools aligned with global best practices. This allows the Bank's internal control capabilities and management information systems (MIS) to be geared towards the future adoption of the Advanced Measurement Approach (AMA) for operational risk.

Other Risks

Risks other than credit, market, liquidity and operational, while not viewed to be significant by the Bank, are likewise overseen by RMD in close coordination with the concerned risk-taking units.

To illustrate, the Compliance and Legal Divisions have embedded processes in the day-to-day operations of the Bank to identify, measure, monitor and control compliance and legal risks, respectively. Consistent with RMD's continuing quest to improve, it is taking steps to further develop the Bank's implementing policies and procedures with regard to risks that are not covered by the Bank at present.

Capital Management

EastWest Bank's capital management framework is designed to ensure the Bank and its subsidiary are capitalized in line with the risk profile, regulatory requirements, economic capital level trends and target ratios approved by the Board. The RMC ensures compliance with the Bank's capital management objectives. The committee reviews actual capital adequacy every quarter and is moving towards assessing future capital adequacy more regularly.

The Bank manages its capital base to achieve a prudent balance between maintaining capital ratios to support business growth and depositor confidence, and providing competitive returns to its shareholders. The capital management process ensures that the Bank's business initiatives, particularly its growth plans and business-as-usual activities, are well supported by sufficient capital levels.

Part of the key initiatives under capital management is the implementation of a fully embedded capital allocation framework, including risk-adjusted performance measurement, within the Bank. This aims to enhance the return on capital deployed or shareholder value.

The Bank also plans to enhance existing and develop new risk and capital models aimed at improving the forecasting of risk and capital requirements and assessment of capital adequacy. Also a key initiative of the Bank is the integration of the Internal Capital Adequacy Assessment Process (ICAAP) into the business processes of all the units.

Operational risk management continues to be well established throughout the Bank, which led to a more efficient use of resources and an improvement in the organizational escalation and reporting of operational risk.

Adhering to the highest standards

EastWest Bank commits to the highest standards of good corporate governance in realizing its vision and mission, as well as in achieving its business objectives safely and soundly. In doing so, the Bank aims to create and sustain value for its various stakeholders.

The Bank's Board of Directors, senior management and employees understand that compliance with regulations and best practice standards is everybody's responsibility. As such, EastWest Bank fosters a culture of partnership within its organization to ensure the long-term success and performance of the Bank.

It accomplishes this by adopting measures designed to align the shareholders' and senior management's objectives with that of employees. EastWest also has an Employee Relations Council composed of representatives from various units to ensure that interests and concerns of personnel are heard and addressed.

EastWest, through its Human Resources Group, likewise ensures that all employees adhere to the highest standards of quality, honesty, transparency and accountability. These are emphasized in the Bank's Code of Ethics which is immediately handed out to new employees. A copy of the Code of Ethics is likewise available in 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.

ATTENDANCE IN BOARD MEETINGS
(Out of 14 meetings held in 2011)

Director	No. of Times Present
Andrew L. Gotianun, Sr.	14
Jonathan T. Gotianun	13
Mercedes T. Gotianun	14
Lourdes Josephine T. Gotianun-Yap	12
Antonio C. Moncupa, Jr.	14
Michael Edward T. Gotianun*	10
Paul A. Aquino**	12
Jose S. Sandejas**	14
Carlos R. Alindada**	13

**Appointed April 28, 2011 **Independent Directors*

Specifically, EthicsDirect is a program that protects in confidence the identity of the employee who disclosed the suspected offense within the organization.

Board of Directors

The Board of Directors conducts its functions as a full Board and through its six committees: Executive, Corporate Governance and Compliance, Audit, Risk Management, Compensation and Trust.

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.

Executive Committee

Chairman:	Mr. Jonathan T. Gotianun
Members:	Mr. Antonio C. Moncupa, Jr.
	Mr. Andrew L. Gotianun, Sr.
	Mrs. Mercedes T. Gotianun
	Mrs. Josephine T. Gotianun-Yap
Alternate Member:	Mr. Paul A. Aquino

The Executive Committee is headed by 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 for the Board of Directors.

The Committee also assumes the reviews 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 and likewise 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:	Mr. Paul A. Aquino
Members:	Mr. Jose S. Sandejas
	Mr. Michael T. Gotianun
	Mr. Jonathan T. Gotianun
	Mr. Carlos R. Alindada

The Corporate Governance and Compliance Committee leads the Bank in defining and attaining Corporate Governance policies and best practices while overseeing the implementation of the Bank's Compliance Program and ensuring that regulatory compliance issues are resolved expeditiously.

Corporate Governance

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.

At the forefront of the implementation of its mandates is the Compliance Division led by the Chief Compliance Officer, officially confirmed by the Monetary Board to carry out this role.

In discharging its functions, the Committee consists of the Chairman of the Board and three Independent Directors who meet every two months.

Audit Committee

Chairman: Mr. Carlos R. Alindada
Members: Mr. Jose S. Sandejas
Ms. Josephine T. Gotianun-Yap
Mr. Paul A. Aquino

The Audit Committee provides oversight on the organization's financial reporting and internal and external audit functions. It is responsible in setting up the Internal Audit Division, appointment of the 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 nor 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 to evaluate and improve the effectiveness of risk management, control and governance processes.

The Committee consists of four members, three of whom are Independent Directors who meet once a month.

Risk Management Committee

Chairman: Mr. Jose S. Sandejas
Members: Mr. Carlos R. Alindada
Ms. Josephine T. Gotianun-Yap
Mr. Paul A. Aquino

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 and recommends to the Board of Directors any modifications or amendments to strategies and policies as necessary. Its function includes 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.

The RMC reports to the BOD the overall risk exposures and the effectiveness of its risk management practices and processes, recommending further policy revisions as necessary. It is composed of four members of the BOD which are all non-executive directors, and majority are Independent Directors. Members possess adequate knowledge and understanding of the organization'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 2011, a total of four meetings were conducted and attended by majority of the Committee members.

Compensation Committee

Chairman: Ms. Josephine T. Gotianun-Yap

Members: Mr. Jonathan T. Gotianun
Mr. Antonio C. Moncupa, Jr.
Mrs. Mercedes T. Gotianun
Mr. Jose S. Sandejas

The Compensation Committee is composed of five members, including the President & CEO 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.

Trust Committee

Chairman: Mr. Jonathan T. Gotianun

Members: Mr. Andrew T. Gotianun
Mr. Michael T. Gotianun
Mr. Antonio C. Moncupa, Jr.
Mr. Arnulfo V. de Pala (Trust Officer)

The Trust Committee is led by Chairman Jonathan T. Gotianun. The Board of Directors is responsible for the proper administration and management of Trust and other fiduciary businesses. It may, however, delegate its authority through the Trust Committee which shall ensure that funds and properties held in trust or in any fiduciary capacity shall be administered with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man, acting in like capacity and familiar matters, would exercise in the conduct of an enterprise of like character and with similar aims.

The Trust Committee is 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 shall undertake such responsibilities as, but not limited to, the following:

1. Acceptance and closing of Trust and other fiduciary accounts;
2. The initial review of assets placed under the trustee's or fiduciary custody;
3. The investment, re-investment and disposition of funds or properties;
4. The 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 Group's business, reviewing, on a periodic basis, 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; application and monitoring of the proper performance benchmarks.

Trust Committee is composed of five members including the President & CEO and meets every two months.

Money Laundering and Terrorist Financing Prevention Program

The Money Laundering and Terrorist Financing Prevention Program 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 and terrorist financing purposes.

EastWest Bank is committed to develop and implement an effective money laundering and terrorist financing prevention program, take appropriate action on detected or potential suspicious activity, comply with applicable anti-money laundering laws and regulations, and promote AML awareness among its employees.

Board of Directors

Michael Edward T. Gotianun
Director

Lourdes Josephine T. Gotianun-Yap
Director

Mercedes T. Gotianun
Director

Andrew L. Gotianun, Sr.
Chairman Emeritus

Jonathan T. Gotianun
Chairman

Antonio C. Moncupa, Jr.
President, CEO and Director

Carlos R. Alindada
Independent Director

Paul A. Aquino
Independent Director

Jose S. Sandejas
Independent Director

Atty. Benedicto M. Valerio, Jr.
Corporate Secretary

Profile of the Directors

ANDREW L. GOTIANUN, SR.
Chairman Emeritus

He is currently the Chairman Emeritus of the Bank. He was previously the Chairman of the Board from 1995 to 2007. Concurrently, he is the Chairman Emeritus of the Board of Filinvest Development Corporation, Chairman of Pacific Sugar Holdings and ALG Holdings, Inc. He was President & CEO of the Insular Bank of Asia and America from 1980 to 1985 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

He 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

He has been the President & CEO of EastWest since January 1, 2007. He is a board member of the Bankers' Association of the Philippines where he chairs the Open Market Committee. He is also a director and Vice Chairman of Philippine Clearing House Corporation and also sits in the board of the Philippine Depository and Trust Corporation. 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

She 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

She 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.

He has been a Director of the Bank since April 2011. Prior to his appointment as Director, he served as Special Assistant to the Chairman of EastWest Bank. He is also currently a Vice President at Filinvest Development Corporation. Mr. Gotianun holds a degree in Business Management from the University of San Francisco.

He 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.

He is an Independent Director of the Bank since October 2009. Mr. Aquino is concurrently an Adviser 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.

He 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.

Senior Management

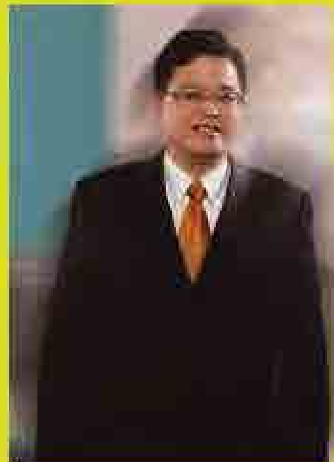
ANTONIO C. MONCUPA, JR.
President and CEO

JACQUELINE S. FERNANDEZ
Executive Vice President

GERARDO SUSMERANO
Executive Vice President

RENATO K. DE BORJA, JR.
Senior Vice President

MANUEL ANDRES D. GOSECO
Senior Vice President



ERNESTO T. UY
Senior Vice President

IVY B. UY
Senior Vice President

DAVID S. AQUINO
First Vice President

VILMA A. NOCHE
First Vice President

MA. BERNADETTE T. RATCLIFFE
First Vice President

AGERICO S. VERZOLA
First Vice President

GRACE N. ANG
Vice President

JUDY GRACE D. CAPILI
Vice President

GLORIA S. CEJERO
Vice President

ISAGANI A. CORTES
Vice President

ARNULFO V. DE PALA
Vice President

RANDALL ROGELIO A. EVANGELISTA
Vice President

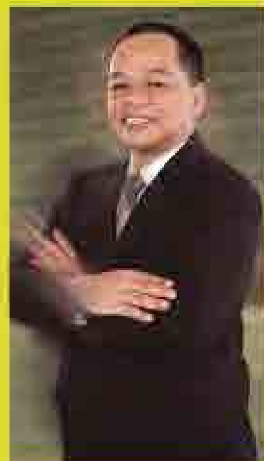
GINA MARIE C. GALITA
Vice President

GERONIMO NILO G. JIMENEZ
Vice President

RENATO P. PERALTA
Vice President

MA. EDWINA L. PINEDA
Vice President

ALLAN JOHN M. TUMBAGA
Vice President


FELIPE A. IGNACIO, JR.
Senior Assistant Vice President

MARI CRIS Q. MAUHAY
Senior Assistant Vice President

EDWARD B. PAROCHA
Senior Assistant Vice President

List of Senior Officers

PRESIDENT AND CEO

Antonio C. Moncupa, Jr.

EXECUTIVE VICE PRESIDENTS

Jacqueline S. Fernandez

Gerardo Susmerano

SENIOR VICE PRESIDENTS

Renato K. De Borja, Jr.

Manuel Andres D. Goseco

Ernesto T. Uy

Ivy B. Uy

FIRST VICE PRESIDENTS

David S. Aquino

Amelia C. Castelo

Elisa O. Go

Vilma A. Noche

Vicente P. Ortuoste

Ma. Bernadette T. Ratcliffe

Agerico S. Verzola

Arlene S. Viernes

Alessandro L. Villaraza

VICE PRESIDENTS

Josephine Vilma A. Abad

Grace N. Ang

Doli D. Cabahug

Mary Jane D. Caliwan

Judy Grace D. Capili

Gloria S. Cejero

Isagani A. Cortes

Alastair S. De Lara

Arnulfo V. De Pala

Efren O. Dela Cruz, Jr.

Randall Rogelio A. Evangelista

Gina Marie C. Galita

Eduardo S. Garcia

Ma. Agnes E. Jazmines

Geronimo Nilo G. Jimenez

Arlene D. Lamarroza

Jocelyn C. Legaspi

Joselito Abram M. Lojo

Maricel L. Madrid

Manuel L. Manalastas

Michael T. Medrero

Cesar P. Nicolasora, Jr.

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, Jr.

Renato Z. Sampang

Aylwin Herminia P. Tamayo

Allan John M. Tumbaga

Margaret S. Unson

Clarisse Maria A. Villalon

Products and 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
One Hyundai MasterCard
LausAutoGroup Visa

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:
- 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
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
- EastWest Bank Debit Card
- Net Access
- Mobile Access

Pay @ Store
Bills Pay
Collect@Site

Branches
as of May 11, 2012

METRO MANILA

168 Mall
4/F, Unit 4H 09-11, Bldg. 5
168 Shopping Mall, Soler St.
Binondo, Manila
Tel: (02) 708-4488 / 708-4595 to 96

A. Bonifacio
659 A. Bonifacio Ave.
Balintawak, Quezon City
Tel: (02) 442-1728 / 442-1802
(02) 442-1634

Alabang - Madrigal Business Park
G/F, Philam Bldg., Acacia Ave.
Madrigal Business Park
Muntinlupa City
Tel: (02) 850-8092 to 95

Amorsolo
G/F, Unit C
Aegis People Support Bldg.
Amorsolo St., Makati City
Tel: (02) 887-6223 / 887-7368
(02) 844-1599

Annapolis
G/F, The Meriden Condominium Bldg.
Unit 1A, 29 Annapolis St.
Northeast Greenhills
Tel: (02) 722-6830 / 722-9088
(02) 705-1632

Anonas
94 Anonas St. cor. KM.6
Kamias, Quezon Cty
Tel: (02) 434-0057 / 434-0058

Antipolo - Marcos Highway
Molvina Compound, Marcos Highway
Brgy. Mayamot, Antipolo City
Tel: (02) 682-2251 / 682-2250

Antipolo - M.L. Quezon
146 M.L. Quezon Ave., Antipolo City
Tel: (02) 661-9677

Araneta
195 Araneta Ave., Brgy. Santol
Quezon City
Tel: (02) 715-4580 / 715-9671
(02) 715-0885

Ayala Avenue - Rufino
G/F, PBCom Tower, 6795 Ayala Ave.
cor. Herrera St., Salcedo Village
Makati City
Tel: (02) 575-3888 loc. 8309, 8402 to 04

Ayala Avenue - MSE
G/F, Makati Stock Exchange Bldg.
Ayala Triangle, Ayala Ave., Makati City
Tel: (02) 659-8020 / 659-8625
(02) 659-8626

Ayala Avenue - Paseo de Roxas
G/F, Philam Tower
8767 Paseo de Roxas, Makati City
Tel: (02) 575-3029 / 575-3006
(02) 575-3323

Baclaran
2/F, New Galleria Baclaran
Shopping Mall, LRT South Terminal
Taft Ave. Ext., Pasay City
Tel: (02) 851-3429 / 851-3488
(02) 851-3584

Baesa Town Center
Baesa Town Center, Retail Store #4
232 Quirino Highway, Quezon City
Tel: (02) 990-4537 to 39

Bagtikan
G/F, High Pointe Bldg.
1184 Chino Roces Ave. cor. Bagtikan St.
Brgy. San Antonio, Makati City
Tel: (02) 478-7781 to 83

Bagumbayan
184-B, E. Rodriguez Ave.
Bagumbayan, Libis, Quezon City
Tel: (02) 666-3963 / 911-3601
(02) 709-1729 to 30

Banawe- N. Roxas
42 Banawe Ave. cor. Nicanor Roxas St.
Quezon City

Banawe - Quezon Avenue
G/F, PPSTA Bldg. 1, Quezon Ave
cor. Banawe St., Quezon City
Tel: (02) 412-1681 / 743-0775
(02) 743-4715

Banawe - Sct. Alcaraz
G/F, Units A,B & C
740 Banawe Ave. cor. Sct. Alcaraz St.
Quezon City
Tel: (02) 354-5042 / 354-5043
(02) 354-5044

Benavidez
Unit 103, One Corporate Plaza
Benavidez St., Legaspi Village
San Lorenzo, Makati City
Tel: (02) 812-0263 / 812-0230
(02) 812-0019

Betterliving
100 Doña Soledad Ave.
Betterliving Subd., Brgy. Don Bosco
Paranaque City
Tel: (02) 823-4280 / 823-4284

Binondo
UFH Bldg., 459 Quintin Paredes St.
Binondo, Manila
Tel: (02) 247-3615 / 247-3708

Burgos Circle
G/F, Units H & I
Crescent Park Residences
Burgos Circle cor. 2nd Ave.
Bonifacio Global City, Taguig
Tel: (02) 478-5481 to 83

C. Raymundo
172 C. Raymundo St., Maybunga
Pasig City
Tel: (02) 442-1728 / 442-1802
(02) 442-1634

City Place
C-P, 2-3, 3/F, City Place Square
Reina Regente St., cor. Felipe II St.
Binondo, Manila
Tel: (02) 547-8757

Congressional
Blk. 7 Lot 4-A, Congressional Ave.
Quezon City
Tel: (02) 926-6609 / 926-5934

Cubao
G/F, Fraland Bldg., 232 P. Tuazon Blvd.
Cubao, Quezon City
Tel: (02) 439-4757 / 912-9642

Del Monte
271 Del Monte Ave. cor. Biak na Bato
Quezon City
Tel: (02) 367-1939 / 367-1822

Dela Rosa
G/F, Kings Court II Bldg.
2129 Chino Roces Ave.
cor. Dela Rosa St., Makati City
Tel: (02) 864-0632 / 864-0633
(02) 864-0792

Divisoria
802 Ilaya St., Tondo, Manila
Tel: (02) 244-9928 / 247-4307

Don Antonio
14 Holy Spirit Drive
Don Antonio Heights
Commonwealth Ave., Quezon City
Tel: (02) 376-0647 / 376-0817
(02) 376-0820

E. Rodriguez Ave.
G/F, MC RILLO BLDG.
1168 E. Rodriguez Ave., Brgy. Mariana
Quezon City
Tel: (02) 695-3521 / 695-3519
(02) 695-3520

Eastwood
G/F, Unit D, Techno Plaza One Bldg.
Eastwood City, Libis, Quezon City
Tel: (02) 234-1389 to 90 / 234-1392

Edsa-Howmart
1264 EDSA cor. Howmart Road
Brgy. A Samson, Quezon City
Tel: (02) 990-9588 to 89 / 990-9811

EDSA - Kalookan
490 EDSA, Caloocan City
Tel: (02) 364-1858 to 60

Emerald
G/F, Hanston Bldg., F. Ortigas St.
Ortigas Center, Pasig City
Tel: (02) 477-4975 / 477-5368
(02) 477-5371

Escolta
G/F, First United Bldg., 413 Escolta St.
cor. Banquero St., Binondo, Manila
Tel: (02) 245-3983 / 245-3984

Evangelista
Evangelist cor. Mojica Sts.
Bangkal, Makati City
Tel: (02) 846-8516 / 846-8517
(02) 846-9500

Festival Mall 1
2/F, Festival Supermall
Filinvest Corporate City, Alabang
Muntinlupa City
Tel: (02) 850-3723 / 850-3606

Festival Mall 2
1/F, Festival Supermall
Filinvest Corporate City, Alabang
Muntinlupa City
Tel: (02) 850-6461 / 842-5981

Gil Puyat Avenue
G/F, Metro House Bldg.
345 Sen. Gil Puyat Ave., Makati City
Tel: (02) 890-8591 / 890-8323
(02) 890-8420 / 890-8102
(02) 890-8625

Grace Park - 8th Ave.
896 8th Ave. cor. J. Teodoro St.
Grace Park West, Caloocan City
Tel: (02) 364-9596 / 364-9576

Greenhills
G/F, ALCCO Bldg., Ortigas Ave.
Greenhills-West, San Juan City
Tel: (02) 727-7629 / 721-7289
(02) 721-9605

Greenhills Shopping Center
Unit AC-14, Annapolis Carpark
Greenhills Shopping Center
San Juan City
Tel: (02) 721-3674 / 721-4886
(02) 721-8292

Intramuros
G/F, 104 B.F. Condominium
A. Serrano Ave.cor. Solano St.
Intramuros, Manila
Tel: (02) 527-2604 / 527-2631
(02) 527-2627

Katipunan
132 Katipunan Road
St. Ignatius Village, Quezon City
Tel: (02) 913-2370 / 913-2398

Las Piñas - Alabang Zapote Road
Alabang-Zapote Road cor. Crispina Ave.
Pamplona III, Las Piñas City
Tel: (02) 873-1925 / 873-5090

Las Piñas - BF Resort
10 BF Resort Drive, BF Resort Village
Talon Dos, Las Piñas City
Tel: (02) 822-28-02 / 822-43-57
(02) 822-26-99

Legaspi Village
G/F, Libran Bldg., Legaspi St.
cor. V.A. Rufino Ave., Legaspi Village
Makati City
Tel: (02) 519-7398 / 519-8125
(02) 519-1785

Magallanes Village
G/F, Unit 102, Tritan Plaza Bldg.
San Antonio St., Paseo De Magallanes
Makati City
Tel: (02) 478-4856 to 57

Malabon - Gov. Pascual
3315 Gov. Pascual Ave.
cor. Maria Clara St., Malabon City
Tel: (02) 332-9606 / 332-9441
(02) 351-7619

Malabon - Potrero
Mary Grace Bldg., McArthur Highway
cor. Del Monte St., Potrero
Malabon City
Tel: (02) 352-5490 / 352-7682
(02) 442-7583

Malabon - Sevilla Boulevard
376 F. Sevilla Blvd., Malabon City
Tel: (02) 283-9535 / 283-9536
(02) 283-9403

Malate
1991 Esperanza Osmeña Bldg.
A. Mabini St., Malate, Manila
Tel: (02) 404-0536 / 404-0537

Mandaluyong - Shaw Boulevard
G/F, Sunshine Square, 312 Shaw Blvd.
Mandaluyong City
Tel: (02) 534-7958 / 534-3942

Mandaluyong - Libertad
G/F, Units A, B & C, Dr. Aguilar Bldg.
No.46 D.M. Guevarra cor. Esteban Sts.
Mandaluyong City
Tel: (02) 534-5507 / 534-7617
(02) 535-3091

Marikina - Gil Fernando Ave.
Gil Fernando Ave. cor. Estrador St.
Midtown Subdivision, San Roque
Marikina City
Tel: (02) 647-5757 / 647-5758

Marikina - J.P. Rizal
324 J.P. Rizal St., Brgy. Calumpang
Marikina City
Tel: (02) 647-5757 / 647-5758

Mayon
170 Mayon Ave., Quezon City
Tel: (02) 354-4717 / 354-4718
(02) 354-4695

Muntinlupa
G/F, Remenes Center Bldg.
22 National Road, Putatan
Muntinlupa City
Tel: (02) 659-0366 / 659-1008
(02) 846-9311

New Manila
Doña Juana Rodriguez Ave.
cor. Aurora Blvd., New Manila
Quezon City
Tel: (02) 722-6239 / 725-1700
(02) 726-3202

North Bay
G/F, Melandria III Bldg.
1090 Northbay Blvd. (South)
Navotas City
Tel: (02) 922-1163 / 922-1812

Novaliches
Lot 489- B2, Brgy. Gulod
Quirino Highway, Novaliches
Quezon City
Tel: (02) 355-2630 / 355-2700
(02) 355-2741

Ortigas
G/F, Unit 103
AIC Gold Tower Condominium
cor. Emerald Ave. and Garnet Ave.
Ortigas Center, Pasig City
Tel: (02) 687-0037 / 687-0039

Paco
1050 Pedro Gil St., Paco, Manila
Tel: (02) 527-3298 / 527-3609
(02) 527-4539

Paseo de Roxas
G/F, 111 Paseo de Roxas Bldg.
Paseo de Roxas St. cor. Legaspi Village
Makati City
Tel: (02) 840-5450 / 840-5434
(02) 840-5442

Pasig Boulevard
Pasig Blvd. cor. Lakeview Drive
Brgy. Bagong Ilog, Pasig City
Tel: (02) 661-8785 / 661-8786
(02) 661-8790

Pasig - Poblacion
A. Mabini cor. Blumentritt Sts.
Kapasigan, Pasig City
Tel: (02) 642-8559 / 642-8729

Pasig - Shaw Boulevard
27 Shaw Blvd., Pasig City
Tel: (02) 635-7311 / 635-7312

Paso de Blas
191 Paso de Blas, Valenzuela City
Tel: (02) 332-2061 / 332-2246
(02) 332-2620

Pasong Tamo Extension
G/F, Dacon Bldg.
2281 Pasong Tamo Ext., Makati City
Tel: (02) 727-7629 / 721-7289
(02) 721-9605

Pioneer
UG-09, Pioneer Pointe Condominium
Pioneer St., Mandaluyong City
Tel: (02) 727-7629 / 721-7289
(02) 721-9605

President's Avenue
35 President's Ave., BF Homes
Parañaque City
Tel: (02) 807-5549 / 519-7355
(02) 519-7146

Quezon Avenue
G/F, Sushine Blvd. Plaza, Quezon Ave.
cor. Scout Santiago Ave.
and Panay Ave., Quezon City
Tel: (02) 372-8214 / 376-5796

Quiapo
G/F, E&L Haw Bldg.
502 Evengelista St. cor. Paterno St.
Quiapo, Manila
Tel: (02) 353-0037 / 353-0052 to 53

Regalado Avenue
Regalado Ave. cor. Archer St.
North Fairview Subd., Quezon City
Tel: (02) 417-2822 / 939-5459

Roosevelt Avenue
184 Roosevelt Ave.
San Francisco del Monte, Quezon City
Tel: (02) 411-8035 / 372-1090
(02) 372-9480

Roxas Boulevard
G/F, DENR Bldg., 1515 Roxas Blvd.
Ermita, Manila
Tel: (02) 525-3605 / 526-0533

Salcedo
G/F, First Life Center, 174 Salcedo St.
Legaspi Village, Makati City
Tel: (02) 815-8490 / 815-8747
(02) 815-8810

San Juan
Blumentritt cor. M. Salvador Sts.
San Juan City
Tel: (02) 723-8991 / 727-8522

San Miguel Avenue
G/F, Unit 101
Medical Plaza Bldg., San Miguel Ave.
Ortigas Business Center, Pasig City
Tel: (02) 575-5121 / 575-5251
(02) 575-5649

Soler
G/F, R&S Tower, 941 Soler St.
Binondo, Manila
Tel: (02) 244-0169 / 243-5872
(02) 243-6406

South Triangle
1604 Quezon Ave. cor. Scout Albano
Brgy. South Triangle, Quezon City
Tel: (02) 352-8100 / 352-8160
(02) 352-8163

Sto. Cristo
Units 107 and 180
Sto. Cristo Condominium, Sto. Cristo
cor. Ilang-Ilang Sts., Binondo, Manila
Tel: (02) 247-7110 / 247-7112
(02) 245-3982

Sucat - Evacom
8208 Dr. A. Santos Ave.
Brgy. San Isidro, Parañaque City
Tel: (02) 822-72-17 / 822-42-49

Sucat - Sto. Niño
Unit 707-6, Columbia Complex
Miascor Drive, Ninoy Aquino Ave.
Brgy. Sto. Niño, Parañaque City
Tel: (02) 852-2732 / 852-2846
(02) 852-2949

T. Alonzo
G/F, 623 T. Alonzo St.
Sta.Cruz, Manila
Tel: (02) 733-7627 / 733-7645
(02) 733-9387

Tandang Sora
Lot 80-A, Kalaw Hills Subd.
Brgy. Culiat, Tandang Sora
Quezon City
Tel: (02) 951-0813 / 951-2550

Taytay
Valley Fair Town Center
Ortigas Ave. Ext., Taytay, Rizal
Tel: (02) 807-5549 / 519-7355
(02) 519-7146

Tektite
G/F, Philippine Stock Exchange Center
(East Tower), Exchange Road
Ortigas Center, Pasig City
Tel: (02) 637-4164 / 667-3211

The Fort
G/F, Marajo Tower, 26th cor. 4th Sts.
Fort Bonifacio, Taguig City
Tel: (02) 856-4275 / 856-4833

Timog Ave.
G/F, Units 13 to 16, Timog Arcade
67 Timog Ave. cor. Scout Torillo St.
Quezon City

Tomas Morato
257 Tomas Morato
cor. Scout Fuentebella, Quezon City
Tel: (02) 928-2163 / 928-6286
(02) 929-5313

U.N. Avenue
G/F, Philam Bldg., U.N. Ave.
cor. Ma. Orosa St., Ermita, Manila
Tel: (02) 575-3345 / 575-3347
(02) 575-3326

Valenzuela
JLB Enterprise Bldg.
McArthur Highway, Marulas
Valenzuela City
Tel: (02) 291-8961 / 445-0756

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

West Avenue
108 West Ave. cor. West Lawin St.
Quezon City
Tel: (02) 417-2822 / 939-5459

West Service Road
West Service Road cor. Sampaguita Ave.
United Parañaque Subdivision (UPS) IV
Parañaque City
Tel: (02) 822-39-10 / 822-39-11
(02) 822-39-07

Westgate
Westgate, Filinvest Corporate City
Alabang, Muntinlupa City
Tel: (02) 771-0811 to 16

Wilson
G/F, 220–B Wilson St., San Juan City
Tel: (02) 696-7365 / 661-9330

LUZON

Bacoor - Talaba
Gen. Aguinaldo Highway
Bacoor, Cavite
Tel: (046) 417-0482 / 417-0345

Baguio City - Abanao Avenue
77 Abanao Ave., Baguio City
Tel: (074) 488-0513 to 15

Baguio - Session Road
Unit 101, Bldg. B, Lopez Bldg.
Session cor. Assumption Roads
Baguio City

Balanga
Block 9 Lots 17 and 18, Banzon Ave.
cor. Cuaderno St., Balanga, Bataan
Tel: (047) 771-0811 to 16

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

Batangas City
54 A.D. Silang cor. Pastor Sts.
Batangas
Tel: (043) 723-7665, 300-6143

Cabanatuan
Melencio cor. Gen. Luna Sts.
Cabanatuan City, Nueva Ecija
Tel: (044) 464-1635

Calamba
Malaya Bldg., Brgy. Uno, Crossing
Calamba, Laguna
Tel: (049) 834-2628 / 545-9018

Carmona
Lot 1947-B
Paseo de Carmona Compound
Governor's Drive, Brgy. Maduya
Carmona, Cavite
Tel: (046) 482-0412 / 575-3888 loc. 8106

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

General Trias
G/F, Unit 102, VCENTRAL GENTRI Bldg.
Governor's Drive, Gen. Trias, Cavite
Tel: (046) 402-2438 to 39

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

Isabela - Cauayan
69 Maharlika Highway
Cauayan City, Isabela
Tel: (078) 652-3943 / 652-3945 to 46

Isabela - Santiago
74 National Highway
Brgy. Victory Norte
Santiago City, Isabela
Tel: (078) 682-4248 / 682-7508

La Union
Quezon Ave. cor. Ancheta St.
San Fernando, La Union
Tel: (072) 700-0008 / 888-2638

Laoag City
Ablan Bldg., J.P. Rizal Ave.
cor. Don Severo Hernandez Ave.
Laoag City, Ilocos Norte
Tel: (077) 771-3866 / 770-5195 to 96

Lipa City
No. 18 Lots 712-A, B and C
B. Morada Ave., Lipa City, Batangas
Tel: (043) 784-1377 / 784-1398
(043) 784-1336

Lucena City
152 Quezon Ave., Lucena City, Quezon
Tel: (042) 373-7623 / 373-7625 to 26

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

Olongapo
1215 West Tapinak St, Olongapo City
Tel: (047) 222-8592 to 94

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

Pampanga - San Fernando
Felix David Bldg., McArthur Highway
San Fernando, Pampanga
Tel: (045) 961-7936 / 961-7937

San Pablo
Lots 2365 and 3152, Rizal Ave.
Brgy. Poblacion, San Pablo City
Laguna
Tel: (049) 503-2834 to 36

San Pedro
Brgy. Nueva, National Highway
San Pedro, Laguna
Tel: (049) 503-2834 to 36

Tarlac
Mariposa Bldg., F. Tanedo St., Tarlac
Tel: (045) 982-3567 / 982-1691
(045) 982-1937

Tuguegarao
Brgy. 8 Poblacion, Rizal College Ave.
cor. Bonifacio and Burgos Sts.
Tuguegarao City

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

VISAYAS

Bacolod City
Lacson cor. Luzuriaga Sts.
Bacolod City, Negros Occidental
Tel: (034) 433-8321 to 22

Cebu - Banilad
G/F, Unit 101, PDI Condominium
Archbishop Reyes Ave. cor. J. Panis St.
Banilad, Cebu City
Tel: (032) 232-5580 / 232-5582
(032) 232-5588

Cebu - Cenia
G/F, Grand Cenia Bldg.
Archbishop Reyes Ave. Cebu City
Tel: (032) 511-2579 / 584-1298

Cebu - N. Escario
Cebu Capitol Commercial Complex Bldg.
N. Escario St., Cebu City
Tel: (032) 416-9930 to 32

Cebu - Mactan
APP Bldg. II, M.L. Quezon National Highway
Pusok, Lapu-Lapu City
Tel: (032) 236-6520 / 236-6516 to 17

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

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

Cebu - Mandaue North Road
Upper G/F, Blocks 01, 02 & 03
ALDO Building, North Road, Basak
Mandaue City
Tel: (032) 236-5582

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

Iloilo - Iznart
G/F, B & C Square Bldg. cor. Iznart
and Solis Sts., Iloilo City
Tel: (033) 338-1207 / 338-2492
(033) 338-1961

Tacloban City
141 Justice Romualdes St.
Tacloban City
Tel: (053) 321-9955 / 523-6556

MINDANAO

Butuan City
G/F, Deofavante Bldg.
Gov. J. Rosales Ave., Brgy. Imadejas
Butuan City, Agusan Del Norte
Tel: (064) 421-5963 / 421-5960 to 61

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

Cotabato City
Don Roman Vilo St., Cotabato City
Tel: (064) 421-5963 / 421-5960 to 61

Davao - Lanang
Block 5 Lot 6, Insular Village
Pampanga Buhangin
Lanang, Davao City
Tel: (082) 234-0866 to 67

Davao - Matina
Fred Ric Bldg., McArthur Highway
Matina, Davao City
Tel: (082) 299-0893 / 297-4183
(082) 297-0012

Davao - Sta. Ana
G/F, GH Depot Bldg., Gov. Sales St.
Sta. Ana, Davao City
Tel: (082) 221-4019 / 221-4021
(082) 221-0436

Davao-Tagum
G/F, Unit GA07-09
Gaisano Grand Arcade, Apokan St.
cor. Lapu-Lapu Ext., Tagum, Davao City
Tel: (084) 2164325 / 2164323
(084) 2164324

Davao - Toril
Saavedra St., Toril, Davao City
Tel: (082) 295-6623 / 295-6706
(082) 295-6621 / 575-3888 loc. 8134
(082) 221-0436

General Santos City
Santiago Blvd., General Santos City
Tel: (083) 552-0529 to 30
(083) 552-0537

Iligan City
G/F, Party Plaza Bldg.
Quezon Ave. Ext., Rabago, Iligan City
Tel: (063) 222-1680 to 82

Ozamis City
G/F, Casa Esperanza
Don Alsemo Bernad Ave., Ozamis City
Misamis Occidental
Tel: (088) 564-0149 / 564-0153
(088) 564-0158

Zamboanga City
G/F, A.J.S. Bldg., N.S. Valderrosa
cor. Corcuerra Sts., Zamboanga City
Tel: (062) 992-6571 to 73

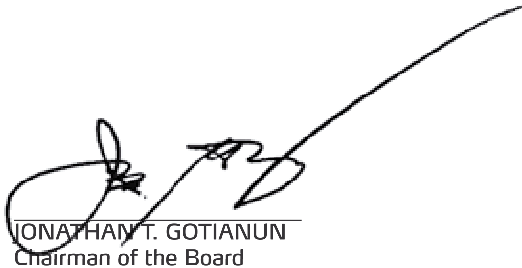
Audited Financial Statements

Statement of Management's Responsibility for Financial Statements

The management of EASTWEST BANKING CORPORATION (the Bank) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011, 2010 and 2009, in accordance with the prescribed financial reporting framework indicated therein, including the additional components attached hereto. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

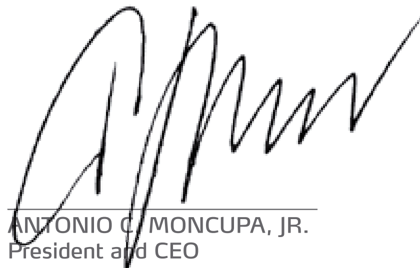
The Board of Directors (BOD) reviews and approves the financial statements and submits the same to the stockholders.

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



JONATHAN T. GOTIANUN
Chairman of the Board

RENATO K. DE BORJA, JR.
Chief Finance Officer



ANTONIO C. MONCUPA, JR.
President and CEO

MANUEL ANDRES D. GOSECO
Treasurer

Independent Auditors' Report

The Stockholders and the Board of Directors
East West Banking Corporation
20th Floor, PBCom Tower
6795 Ayala Avenue corner Herrera Street
Makati City

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of East West Banking Corporation and Subsidiary ("the Group"), which comprise the statement of financial position as at December 31, 2011 and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the parent company financial statements of East West Banking Corporation ("the Parent Company"), which comprise the statements of financial position as at December 31, 2011, 2010 and 2009 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for 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.

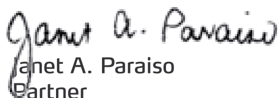
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2011 and its financial performance and its cash flows for the year then ended, and the financial position of the Parent Company as at December 31, 2011, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Janet A. Paraiso
Partner
CPA Certificate No. 92305
SEC Accreditation No. 0778-AR-1 (Group A),
February 2, 2012, valid until February 1, 2015
Tax Identification No. 193-975-241
BIR Accreditation No. 08-001998-62-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174578, January 2, 2012, Makati City

February 23, 2012

Statements of Financial Position

	Consolidated (see Note 2)	Parent Company		
	As of December 31			
	2011	2011	2010	2009
	(Amounts in Thousands)			
ASSETS				
Cash and Other Cash Items (Note 16)	₱2,243,104	₱2,190,159	₱2,079,324	₱1,605,787
Due from Bangko Sentral ng Pilipinas (Notes 15 and 16)	11,315,202	11,306,441	11,556,018	6,322,227
Due from Other Banks	1,739,088	1,527,896	1,253,412	3,285,005
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 8)	7,723,094	7,723,094	2,598,621	8,933,100
Financial Assets at Fair Value Through Profit or Loss (Note 9)	5,831,623	5,831,623	4,598,479	1,487,102
Financial Assets at Fair Value Through Other Comprehensive Income (Note 9)	77,244	77,244	–	–
Available-for-Sale Investments (Note 9)	–	–	16,018,421	15,024,558
Investment Securities at Amortized Cost (Note 9)	11,946,992	11,946,992	–	–
Loans and Receivables (Note 10 and 27)	48,086,799	48,079,742	40,264,295	33,076,914
Investment in a Subsidiary (Note 7)	–	158,548	–	–
Property and Equipment (Note 11)	1,947,717	1,733,954	1,266,429	961,305
Investment Properties (Note 12 and 15)	1,085,154	866,102	844,341	817,191
Deferred Tax Assets (Note 24)	927,929	1,115,549	1,272,973	1,082,290
Goodwill and Other Intangible Assets (Note 7 and 13)	2,436,179	1,427,512	1,378,330	1,327,155
Other Assets (Note 14)	646,474	616,888	626,103	1,079,696
TOTAL ASSETS	₱96,006,599	₱94,601,744	₱83,756,746	₱75,002,330

(Forward)

	Consolidated (see Note 2)	Parent Company		
		As of December 31		
	2011	2011	2010	2009
	(Amounts in Thousands)			
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Note 16 and 27)				
Demand	₱21,787,662	₱21,714,348	₱19,278,484	₱14,765,014
Savings	11,476,140	10,469,622	8,536,541	8,352,260
Time	41,779,095	41,779,095	36,988,869	34,955,515
Long-term negotiable certificates of deposits	1,626,638	1,626,638	1,668,801	1,712,056
	76,669,535	75,589,703	66,472,695	59,784,845
Bills and Acceptances Payable (Note 17)	2,163,188	2,160,822	161,141	1,957,637
Accrued Taxes, Interest and Other Expenses (Note 18)	752,758	733,781	753,464	482,624
Cashier's Checks and Demand Draft Payable	452,569	452,569	299,478	822,254
Subordinated Debt (Note 19)	2,861,282	2,750,000	2,750,000	1,250,000
Income Tax Payable	15,696	14,511	-	-
Other Liabilities (Note 20)	1,867,438	1,688,139	3,561,076	2,565,408
TOTAL LIABILITIES	₱84,782,466	₱83,389,525	₱73,997,854	₱66,862,768
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common Stock (Note 22)	₱3,873,528	₱3,873,528	₱3,873,528	₱3,873,528
Preferred Stock (Note 22)	3,000,000	3,000,000	3,000,000	3,000,000
Surplus Reserves (Note 28)	36,183	36,183	33,073	28,571
Surplus (Note 28)	4,305,370	4,309,908	2,717,948	979,290
Net Unrealized Gains on:				
Financial Assets at Fair Value Through Other Comprehensive Income	299	299	–	–
Available-for-Sale Investments	–	–	188,772	272,408
Cumulative Translation Adjustment	(7,699)	(7,699)	(54,429)	(14,235)
	11,207,681	11,212,219	9,758,892	8,139,562
NON-CONTROLLING INTEREST	16,452	–	–	–
TOTAL EQUITY	11,224,133	11,212,219	9,758,892	8,139,562
TOTAL LIABILITIES AND EQUITY	₱96,006,599	₱94,601,744	₱83,756,746	₱75,002,330

See accompanying Notes to Financial Statements.

Statements of Income

	Consolidated (see Note 2)	Parent Company		
		Years Ended December 31		
	2011	2011	2010	2009
		(Amounts in Thousands)		
INTEREST INCOME				
Loans and receivables (Note 10 and 27)	₱5,450,230	₱5,379,937	₱4,518,081	₱3,884,251
Trading and investment securities (Note 9)	1,108,695	1,108,695	1,070,061	1,029,903
Due from other banks and interbank loans receivable and securities purchased under resale agreements	204,422	202,947	297,451	285,298
	6,763,347	6,691,579	5,885,593	5,199,452
INTEREST EXPENSE				
Deposit liabilities (Note 16)	1,477,742	1,465,053	1,328,327	1,443,097
Subordinated debt, bills payable and other borrowings (Note 17 and 19)	372,246	354,278	238,817	226,826
	1,849,988	1,819,331	1,567,144	1,669,923
NET INTEREST INCOME	4,913,359	4,872,248	4,318,449	3,529,529
Service charges, fees and commissions	1,536,774	1,509,182	1,341,778	912,964
Trading and securities gain (Note 9)	447,188	447,188	1,155,257	426,734
Foreign exchange gain	184,416	184,437	293,709	235,187
Gain on asset foreclosure and dacion transactions	84,650	82,622	50,959	91,982
Loss on derecognition of investment securities at amortized cost (Note 9)	(44,440)	(44,440)	-	-
Trust income (Note 28)	31,103	31,103	45,019	69,956
Gain (loss) on sale of assets	(15,580)	(14,815)	42,281	13,124
Miscellaneous (Note 23)	166,048	146,413	146,967	171,386
TOTAL OPERATING INCOME	7,303,518	7,213,938	7,394,419	5,450,862
OPERATING EXPENSES				
Compensation and fringe benefits (Note 25 and 27)	1,438,549	1,412,813	1,364,817	1,048,328
Provision for impairment and credit losses (Notes 10, 12, 14 and 15)	731,848	731,848	1,552,211	1,237,231
Taxes and licenses	527,439	519,205	452,495	378,278
Depreciation and amortization (Notes 11, 12 and 14)	325,950	289,899	250,853	278,693
Rent (Note 26)	291,049	282,623	273,789	237,789
Amortization of intangible assets (Note 13)	75,246	74,387	84,309	63,912
Miscellaneous (Note 23)	1,800,594	1,786,086	1,636,446	1,536,916
TOTAL OPERATING EXPENSES	5,190,675	5,096,861	5,614,920	4,781,147
INCOME BEFORE INCOME TAX	2,112,843	2,117,077	1,779,499	669,715
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)	380,350	379,586	(31,161)	48,057
NET INCOME	₱1,732,493	₱1,737,491	₱1,810,660	₱621,658
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	₱1,732,953			
Non-controlling interest	(460)			
NET INCOME	₱1,732,493			
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)		₱3.78	₱4.15	₱1.60
Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)		₱2.52	₱2.63	₱1.21

See accompanying Notes to Financial Statements.

Statements of Comprehensive Income

	Consolidated (see Note 2)	Parent Company		
	Years Ended December 31			
	2011	2011	2010	2009
	(Amounts in Thousands)			
NET INCOME FOR THE YEAR	₱1,732,493	₱1,737,491	₱1,810,660	₱621,658
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gains on available-for-sale investments	–	–	1,050,778	962,350
Realized loss transferred to statement of income	–	–	(1,134,414)	(400,340)
Net change in fair value of available-for-sale investments	-	-	(83,636)	562,010
Unrealized loss on financial assets at FVTOCI	(6,000)	(6,000)	-	-
Cumulative translation adjustment	46,730	46,730	(40,194)	(22,299)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	40,730	40,730	(123,830)	539,711
TOTAL COMPREHENSIVE INCOME	₱1,773,223	₱1,778,221	₱1,686,830	₱1,161,369

ATTRIBUTABLE TO:	
Equity holders of the Parent Company	₱1,773,683
Non-controlling interest	(460)
TOTAL COMPREHENSIVE INCOME	₱1,773,223

See accompanying Notes to Financial Statements.

Statements of Changes in Equity

Consolidated (see Note 2)

Year Ended December 31, 2011

	Equity Attributable to Equity Holders of the Parent Company									
	Common Stock	Preferred Stock	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at FVTOCI	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Cumulative Translation Adjustment	Total	Non-Controlling Interest	Total Equity
	(Amounts in Thousands)									
Balances at January 1, 2011 (as previously reported)	₱3,873,528	₱3,000,000	₱33,073	₱2,717,948	₱	₱188,772	(₱54,429)	₱9,758,892	₱	₱9,758,892
Effect of initial application of PFRS 9, *Financial Instruments* (Note 2)	–	–	–	195,079	6,299	(188,772)	–	12,606	–	12,606
Balances at January 1, 2011, as restated	3,873,528	3,000,000	33,073	2,913,027	6,299	–	(54,429)	9,771,498	–	9,771,498
Net income	–	–	–	1,732,953		–	–	1,732,953	(460)	1,732,493
Other comprehensive income (loss)	–	–	–	–	(6,000)	–	46,730	40,730	–	40,730
Total comprehensive income (loss)	–	–	–	1,732,953	(6,000)	–	46,730	1,773,683	(460)	1,773,223
Dividends paid (Note 22)	–	–	–	(337,500)	–	–	–	(337,500)	–	(337,500)
Transfer to surplus reserves (Note 28)	–	–	3,110	(3,110)	–	–	–	–	–	–
Acquisition of a subsidiary (Note 7)	–	–	–	–	–	–	–	–	16,912	16,912
Balances at December 31, 2011	₱3,873,528	₱3,000,000	₱36,183	₱4,305,370	₱299	₱	(₱7,699)	₱11,207,681	₱16,452	₱11,224,133

Parent Company

Years Ended December 31, 2011, 2010 and 2009

	Common Stock	Preferred Stock	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at FVTOCI	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Cumulative Translation Adjustment	Total Equity
				(Amounts in Thousands)				
Balances at January 1, 2011 (as previously reported)	₱3,873,528	₱3,000,000	₱33,073	₱2,717,948	₱	₱188,772	(₱54,429)	₱9,758,892
Effect of initial application of PFRS 9 (Note 2)	–	–	–	195,079	6,299	(188,772)	–	12,606
Balances at January 1, 2011, as restated	3,873,528	3,000,000	33,073	2,913,027	6,299	–	(54,429)	9,771,498
Net income	–	–	–	1,737,491	–	–	–	1,737,491
Other comprehensive income (loss)	–	–	–	–	(6,000)	–	46,730	40,730
Total comprehensive income (loss)	–	–	–	1,737,491	(6,000)	–	46,730	1,778,221
Transfer to surplus reserves (Note 28)	–	–	3,110	(3,110)	–	–	–	–
Dividends paid (Note 22)	–	–	–	(337,500)	–	–	–	(337,500)
Balances at December 31, 2011	₱3,873,528	₱3,000,000	₱36,183	₱4,309,908	₱299	₱	(₱7,699)	₱11,212,219
Balances at January 1, 2010	₱3,873,528	₱3,000,000	₱28,571	₱979,290	₱	₱272,408	(₱14,235)	₱8,139,562
Net income	–	–	–	1,810,660	–	–	–	1,810,660
Other comprehensive loss	–	–	–	–	–	(83,636)	(40,194)	(123,830)
Total comprehensive income (loss)	–	–	–	1,810,660	–	(83,636)	(40,194)	1,686,830
Dividends paid (Note 22)	–	–	–	(67,500)	–	–	–	(67,500)
Transfer to surplus reserves (Note 28)	–	–	4,502	(4,502)	–	–	–	–
Balances at December 31, 2010	₱3,873,528	₱3,000,000	₱33,073	₱2,717,948	₱	₱188,772	(₱54,429)	₱9,758,892
Balances at January 1, 2009	₱3,873,528	₱	₱21,575	₱364,628	₱	(₱289,602)	₱8,064	₱3,978,193
Issuance of preferred shares (Note 21)	–	3,000,000	–	–	–	–	–	3,000,000
Net income	–	–	–	621,658	–	–	–	621,658
Other comprehensive income (loss)	–	–	–	–	–	562,010	(22,299)	539,711
Total comprehensive income (loss)	–	–	–	621,658	–	562,010	(22,299)	1,161,369
Transfer to surplus reserves (Note 28)	–	–	6,996	(6,996)	–	–	–	–
Balances at December 31, 2009	₱3,873,528	₱3,000,000	₱28,571	₱979,290	₱	₱272,408	(₱14,235)	₱8,139,562

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Consolidated (see Note 2)	Parent Company		
	Years Ended December 31			
	2011	2011	2010	2009
	(Amounts in Thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	₱2,112,843	₱2,117,077	₱1,779,499	₱669,715
Adjustments for:				
Provision for impairment and credit losses (Note 14)	731,848	731,848	1,552,211	1,237,231
Depreciation and amortization (Notes 11, 12 and 14)	325,950	289,899	250,853	278,693
Gain on asset foreclosure and dacion transactions	(84,650)	(82,622)	(50,959)	(91,982)
Amortization of intangible assets (Note 13)	75,246	74,387	84,309	63,913
Loss on derecognition of investment securities at amortized cost	44,440	44,440	–	–
Loss (gain) on sale of assets	15,580	14,815	(42,281)	(13,124)
Gain on sale of available-for-sale investments	–	–	(1,134,413)	(400,340)
Write-off of capitalized software (Note 13)	1,542	–	812	4,532
Changes in operating assets and liabilities:				
Decrease (increase) in the amounts of:				
Financial assets at fair value through profit or loss	5,219,300	5,219,300	(3,111,377)	(1,033,698)
Loans and receivables	(8,752,913)	(8,786,734)	(8,846,130)	(4,426,981)
Other assets	62,372	58,629	364,874	(236,094)
Increase (decrease) in the amounts of:				
Deposit liabilities	9,003,287	9,117,008	6,687,850	11,735,316
Accrued taxes, interest and other expenses	(206,191)	(19,683)	311,316	(30,522)
Cashier's checks and demand draft payable	153,091	153,091	(522,776)	550,450
Other liabilities	(1,720,270)	(1,872,937)	995,669	662,298
Net cash generated from (used in) operations	6,981,475	7,058,518	(1,680,543)	8,969,407
Income taxes paid	(198,767)	(198,424)	(199,999)	(246,150)
Net cash provided by (used in) operating activities	6,782,708	6,860,094	(1,880,542)	8,723,257

(Forward)

	Consolidated (see Note 2)	Parent Company		
		Years Ended December 31		
	2011	2011	2010	2009
		(Amounts in Thousands)		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of:				
Available-for-sale investments	₱	₱	₱83,304,663	₱50,040,750
Investment properties and other repossessed assets (Note 12)	224,775	207,871	136,317	36,954
Property and equipment (Note 11)	2,149	2,149	33,954	10,795
Proceeds from sale and maturity of held-to-maturity investments	–	–	–	1,141,049
Acquisitions of:				
Available-for-sale investments	–	–	(83,247,749)	(53,741,312)
Property and equipment (Note 11)	(724,904)	(699,780)	(505,095)	(437,965)
Capitalized software (Note 13)	(135,241)	(123,569)	(136,296)	(175,062)
Investment securities at amortized cost	(2,490,183)	(2,490,183)	–	–
Held-to-maturity investments	–	–	–	(536,650)
Acquisition of a subsidiary, net of cash acquired (Note 7)	268,807	(148,367)	–	57,130
Net cash used in investing activities	(2,854,597)	(3,251,879)	(414,206)	(3,604,311)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of subordinated debt	–	–	1,500,000	–
Proceeds from bills and acceptances payable	12,690,691	11,040,621	464,060	116,207,525
Payments of bills and acceptances payable	(10,748,189)	(9,040,940)	(2,260,556)	(117,435,605)
Payments of dividends	(337,500)	(337,500)	(67,500)	–
Issuance of preferred stock (Note 22)	–	–	–	3,000,000
Acquisition of non-controlling interest (Note 6)	–	(10,181)	–	–
Net cash provided by (used in) financing activities	1,605,002	1,652,000	(363,996)	1,771,920
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,533,113	5,260,215	(2,658,744)	6,890,866
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	2,079,324	2,079,324	1,605,787	1,756,510
Due from Bangko Sentral ng Pilipinas	11,556,018	11,556,018	6,322,227	4,605,557
Due from other banks	1,253,412	1,253,412	3,285,005	873,186
Interbank loans receivable and securities purchased under resale agreements	2,598,621	2,598,621	8,933,100	6,020,000
	17,487,375	17,487,375	20,146,119	13,255,253
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	2,243,104	2,190,159	2,079,324	1,605,787
Due from Bangko Sentral ng Pilipinas	11,315,202	11,306,441	11,556,018	6,322,227
Due from other banks	1,739,088	1,527,896	1,253,412	3,285,005
Interbank loans receivable and securities purchased under resale agreements	7,723,094	7,723,094	2,598,621	8,933,100
	₱23,020,488	₱22,747,590	₱17,487,375	₱20,146,119

See accompanying Notes to Financial Statements.

Net Operational Cash Flows from Interest and Dividends

	Consolidated (see Note 2)	Parent Company		
	Years Ended December 31			
	2011	2011	2010	2009
	(Amounts in Thousands)			
Interest received	₱6,767,618	₱6,676,758	₱5,723,065	₱5,118,298
Interest paid	1,858,708	1,797,391	1,490,151	1,712,059
Dividend received	1,047	1,047	1,066	190

See accompanying Notes to Financial Statements.

1. Corporate Information

East West Banking Corporation (the Parent Company) was granted authority by the Bangko Sentral ng Pilipinas (BSP) to operate as a commercial bank under Monetary Board (MB) Resolution. No. 101 dated July 6, 1994, and commenced operations on July 8, 1994. The Parent Company was also granted authority by the BSP to operate an expanded foreign currency deposit unit under MB Resolution No. 832 dated August 31, 1994. The Parent Company is effectively 100.00% owned by Filinvest Development Corporation (FDC). The Parent Company's ultimate parent company is ALG Holdings Corporation.

The Parent Company is a domestic corporation registered with the Securities and Exchange Commission (SEC) on March 22, 1994. Through its network of 122, 113 and 89 branches as of December 31, 2011, 2010 and 2009, respectively, the Parent Company provides a wide range of financial services to consumer and corporate clients. The Parent Company'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 19, 2009 (the acquisition date), the Parent Company 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)

On March 31, 2009, AIGPASB, PAFLI and PFLHI were merged to the Parent Company (see Note 7).

On August 19, 2011, the Parent Company acquired 84.78% of the voting shares of Green Bank (A Rural Bank),Inc. (GBI). GBI is engaged in the business of extending credit to small farmers and tenants and to deserving rural industries or enterprises and to transact all businesses which may be legally done by rural banks. GBI, as a subsidiary, has been consolidated to the Parent Company from the date of acquisition, being the date on which the Parent Company obtained control of GBI (see Note 7).

The accompanying financial statements of the Group were approved and authorized for issue by the Board of Directors (BOD) on February 23, 2012.

2. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying consolidated financial statements as of and for the year ended December 31, 2011 include the financial statements of the Parent Company and its Subsidiary (collectively referred to as the Group).

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI), available-for-sale (AFS) investments and derivative financial instruments that have been measured at fair value. The financial statements are presented in Philippine peso and all values are rounded to the nearest thousand except when otherwise indicated.

The financial statements of the Parent Company 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 peso, which is the Parent Company'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.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the subsidiary is the Philippine peso.

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

Presentation of Financial Statements
The Group 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 21.

Basis of Consolidation
The subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control and continue to be consolidated until the date when the control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company using consistent accounting policies.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiary is the entity in which the Parent Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Non-Controlling Interest

Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from parent shareholder's equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests that does not result in a loss of control are accounted for as equity transaction, whereby the difference between the consideration and the fair value of the share of net assets acquired is recognized as an equity transaction and attributed to the owners of the Parent Company.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the early adoption of PFRS 9, *Financial Instruments* and the following new and amended standards, interpretations and improvements to PFRS which were adopted as of January 1, 2011. 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 Group.

- PAS 24, *Related Party Disclosures (Amendment)*
- PAS 32, *Financial Instruments: Presentation (Amendment)*
- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes (determining the fair value of award credits)*
- Philippine Interpretation IFRIC-19, *Extinguishing Financial Liabilities with Equity Instruments*

Improvements to PFRSs (issued in 2010)
- PFRS 3, *Business Combinations*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 1, *Presentation of Financial Statements*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 34, *Interim Financial Reporting*

The impact on the financial statements of the Group's adoption of PFRS 9 is described below:

PFRS 9, *Financial Instruments*

The International Accounting Standards Board (IASB) issued International Financial Reporting Standards 9, *Financial Instruments* in November 2009 and October 2010 relating to the classification and measurements of financial assets and financial liabilities, respectively. It was approved for adoption by the Financial Reporting Standards Council (FRSC) as PFRS 9, *Financial Instruments* (PFRS 9) in March 2010. The FRSC adopted requirements on the classification and measurement of financial assets in March 2010 and the requirements on the accounting for financial liabilities in November 2010. The Monetary Board of Bangko Sentral ng Pilipinas (BSP) approved the guidelines governing the implementation and early adoption of PFRS 9 on December 23, 2010, and issued the implementing guidelines under BSP Circular Nos. 708 and 733 on January 10, 2011 and August 5, 2011, respectively. The SEC has also issued guidelines on the implementation of PFRS 9 on May 16, 2011 under SEC Memorandum Circular No. 3. The standard was originally effective for annual periods beginning on or after January 1, 2013, with early application permitted, but was amended to defer mandatory effective date to January 1, 2015. When adopted, the standard is applied retrospectively. For annual reporting periods beginning before January 1, 2012, an entity can choose not to restate the comparative periods.

The Group has early adopted PFRS 9 with a date of initial application of January 1, 2011. Although PFRS 9 is effective for annual periods beginning on or after January 1, 2015, the Group opted to early adopt the said standard for the following merits:

a. Adoption of PFRS 9 is inevitable, hence, adopting in 2011 rather than later is operationally more efficient, particularly with the need to restate prior year financial statements for comparative purposes, if adopted in periods beginning on or after January 1, 2012;
b. This puts the Group in a position to manage better its earnings and capital as the business model approach introduced by PFRS 9 aims to align the accounting standards with the Bank's risk, capital, and asset-liability management practices; and
c. Corollary to better managed earnings and capital is stability in the Group's earnings.

These changes in accounting policy are applied on a restrospective basis, except as described below from January 1, 2011 without restatement of prior periods.

The Group chose to apply the limited exemption not to restate comparative information, thereby resulting in the following impact:

- Comparative information for prior periods is not restated. The classification and measurement requirements previously applied in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* (PAS 39) and disclosures required in PFRS 7, *Financial Instruments: Disclosures (PFRS 7)* are retained for the comparative periods.
- The Group disclosed the accounting policies for both the current period and the comparative periods, one applying PFRS 9 and one applying PAS 39.
- The difference between the previous carrying amount and the carrying amount as of January 1, 2011 is recognized in the opening 'Surplus' or other component of equity, as appropriate.
- As comparative information is not restated, the Group is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

The standard introduces new classification and measurement requirements for financial assets, which replaced the classification and measurement requirements previously included in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value. Debt instruments are measured at amortized cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met, the financial asset is classified as at FVTPL. Additionally, even if the asset meets the amortized cost criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Investments in equity instruments are classified and measured at FVTPL except if the equity investment is not held for trading and is designated by the Group at FVTOCI. If the equity investment is designated at FVTOCI, all gains and losses, except for dividend income recognized in accordance with PAS 18, *Revenue*, including disposal costs are recognized in other comprehensive income and are not subsequently reclassified to profit or loss.

Impact of Change in Accounting Policy
In accordance with the transition provisions of PFRS 9, the classification of financial assets that the Group held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date. Presented below are the effects in the Parent Company's financial statements as a result of the application of PFRS 9 beginning January 1, 2011:

Original Measurement Category under PAS 39	New Measurement Category under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
Loans and receivables			
Cash and other cash items	Investment securities at amortized cost	₱2,079,324	₱2,079,324
Due from BSP	Investment securities at amortized cost	11,556,018	11,556,018
Due from other banks	Investment securities at amortized cost	1,253,412	1,253,412
Interbank loans receivable and securities purchased under resale agreements	Investment securities at amortized cost	2,598,621	2,598,621
Loans and receivables	Investment securities at amortized cost	40,264,295	40,264,295
Financial assets at FVPL			
Government securities	Financial assets at FVTPL	2,157,091	2,157,091
	Investment securities at amortized cost	2,441,374	2,453,980
Private bonds	Financial assets at FVTPL	14	14
Available-for-sale investments			
Government securities	Financial assets at FVTPL	6,483,759	6,483,759
	Investment securities at amortized cost	4,827,712	4,776,258
Private bonds	Financial assets at FVTPL	2,410,059	2,410,059
	Investment securities at amortized cost	2,219,557	2,238,242
Equity securities	Financial assets at FVTOCI	77,334	77,334

The initial application of PFRS 9 has had an impact on the following financial assets of the Parent Company:

a. The Parent Company's investments in debt instruments previously classified as AFS investments that met the criteria to be classified as at amortized cost under PFRS 9 were reclassified as such because the business model is to hold these debt instruments in order to collect contractual cash flows. The reclassification had no impact on the Parent Company's surplus as of January 1, 2011.

   Investments in debt instruments previously classified as AFS investments that did not meet the criteria to be classified as at amortized cost under PFRS 9 has been classified as financial assets at FVTPL under PFRS 9. The accumulated net unrealized gain on AFS investments as of January 1, 2011 amounting to ₱182.47 million was adjusted to opening Surplus as of January 1, 2011.

   The Parent Company elected to present in other comprehensive income changes in fair value of equity investments (not held for trading) previously classified as AFS investments because the business model is to hold these equity securities for long-term strategic investment and not for trading. The reclassification had no impact on the Parent Company's opening Surplus for the year ended December 31, 2011.

b. The Parent Company's investments in debt instruments (held for trading) previously classified as financial assets at FVPL under PAS 39 that met the criteria to be classified as at amortized cost under PFRS 9 were reclassified as such because the business model is to collect contractual cash flows. The difference between the amortized cost and the fair value as of January 1, 2011 amounting to ₱12.61 million was adjusted to opening Surplus as of January 1, 2011.

c. The Parent Company did not have any financial assets in the statement of financial position that were previously designated at FVPL but are no longer so designated. Neither did it designate any financial asset at FVPL on initial application of PFRS 9.

As a result of the adoption of PFRS 9, the following adjustments were made to the Parent Company's financial information as of January 1, 2011:

Net increase in financial assets	₱12,606
Net increase in opening surplus	195,079
Net decrease in net unrealized gain on AFS investments	(188,772)
Net increase in net unrealized gain on financial assets at FVTOCI	6,299
Net increase in equity	12,606

The adoption of PFRS 9 related to classification and measurement of financial liabilities has no material impact on the Group's financial statements. As of December 31, 2011, the Group's financial liabilities are classified and measured at amortized cost.

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.

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 Group. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, 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 Group. 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 Group or advanced to the borrowers.

Derivatives are recognized on trade date - the date that the Group 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 Group recognizes financial instruments when, and only when, the Group becomes a party to the contractual terms of the financial instruments.

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 Group 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 Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Classification, Reclassification and Measurement of Financial Assets and Financial Liabilities (from January 1, 2011)

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation)*, except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial instruments are 'debt instruments'.

Financial assets at amortized cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment in value, with the interest calculated recognized as Interest income in the statement of income. The Group classified Cash and other cash items, Due from BSP, Due from other banks, Interbank loans receivable (IBLR) and Securities purchased under resale agreements (SPURA), Investment securities at amortized cost and Loans and receivables as financial assets at amortized cost.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. As of December 31, 2011, the Group has not made such designation.

Financial assets at FVTOCI

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Equity investments as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in Net unrealized gain (loss) on financial assets at FVTOCI in the statement of financial position. Where the asset is disposed of, the cumulative gain or loss previously recognized in Net unrealized gain (loss) on financial assets at FVTOCI is not reclassified to profit or loss, but is reclassified to Surplus.

The Group has designated certain equity instruments that are not held for trading as at FVTOCI on initial application of PFRS 9 (see Note 9).

Dividends earned on holding these equity instruments are recognized in the statement of income when the Group's right to receive the dividends is established in accordance with PAS 18, *Revenue,* unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income under Miscellaneous income.

Financial assets at FVTPL

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss.

Equity investments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVTOCI at initial recognition.

The Group's financial assets at FVTPL include government securities, private bonds and equity securities held for trading purposes.

Financial assets at FVTPL are carried at fair value, and realized and unrealized gains and losses on these instruments are recognized as Trading and securities gain in the statement of income. Interest earned on these investments is reported in the statement of income under Interest income while dividend income is reported in the statement of income under Miscellaneous income when the right of payment has been established. Quoted market prices, when available, are used to determine the fair value of these financial instruments. If quoted market prices are not available, their fair values are estimated based on inputs provided by the BSP, Bureau of Treasury and investment bankers. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the PDS closing rate at the statement of financial position date. The foreign exchange component forms part of its fair value gain or loss. For financial assets classified as at FVTPL, the foreign exchange component is recognized in the statement of income. For financial assets designated as at FVTOCI, any foreign exchange component is recognized in other comprehensive income. For foreign currency denominated debt instruments classified at amortized cost, the foreign exchange gains and losses are determined based on the amortized cost of the asset and are recognized in the statement of income.

Reclassification of financial assets
The Group can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Group is required to reclassify the following financial assets:

- from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and
- from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument's contractual cash flows meet the amortized cost criteria.

Reclassification of financial assets designated as at FVTPL at initial recognition is not permitted.

A change in the objective of the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

Financial liabilities
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Management may designate a financial liability at FVTPL upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities 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.

As of December 31, 2011, the Group has no financial liability at FVTPL.

Financial liabilities at amortized cost
Financial liabilities are measured at amortized cost using the effective interest method, except for:

a. financial liabilities at fair value through profit or loss which are measured at fair value; and
b. financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

<u>Classification, Reclassification and Measurement of Financial Assets and Financial Liabilities (Prior to January 1, 2011)</u>
The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. The Parent Company 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 financial instruments 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.

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' 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 Parent Company'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' 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 Parent Company has not designated any financial asset or financial liabilities at FVPL.

Derivative financial instruments
The Parent Company 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 Group does not apply hedge accounting.

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

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 FVTPL. The Parent Company assesses whether embedded derivatives are required to be separated from the host contracts when the Parent Company 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 Parent Company has no embedded derivatives.

HTM investments
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Parent Company's management has the positive intention and ability to hold to maturity. Where the Parent Company 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.

Loans and receivables
This financial asset category relates to the statement of financial position captions 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Loans and receivables' and 'IBLR and 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 FVTPL'.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the 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 FVTPL, 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' 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.

Reclassification of financial assets
A financial asset is reclassified out of the FVTPL 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 FVTPL 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.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVTPL, 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 Group 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 FVTPL, 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.

Impairment of Financial Assets

The Group 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.

For financial assets classified and measured at amortized cost such as loans and receivables, due from other banks and investment securities at amortized cost (from January 1, 2011) and for financial assets carried at amortized costs such as loans and receivables and due from other banks carried at amortized cost (prior to January 1, 2011), the Group 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 Group 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 Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

For credit cards receivables, the Group is using net flow rate methodology for collective impairment (see Note 4).

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.

AFS investments (prior to January 1, 2011)

For AFS investments, the Group 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.

HTM investments (prior to January 1, 2011)

The Group 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.

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 Group 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 Group 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 Group 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 Group'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 Group 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 Group, 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.

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.

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 10 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 Group 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 Group'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.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

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 Group 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 Group 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, branch licenses, 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 Group'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.

Branch licenses

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

Customer relationship and core deposits

Customer relationship and core deposits are the intangible assets acquired by the Group 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 Group.

Following initial recognition, customer relationship and core deposits are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship is amortized on a straight-line basis over its useful life of 40 years while the customer relationship and core deposits are amortized on a straight-line basis over its useful life of 13 and 10 years, respectively (see Note 13).

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.

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

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 they may be impaired.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group 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 FVTPL and 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 Group 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 Group 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 Group'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.

<u>Leases</u>
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).

Group 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.

<u>Expense Recognition</u>
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 Group.

<u>Retirement Cost</u>
The Group has a funded, noncontributory defined benefit retirement plan (the Plan). The retirement cost of the Group 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.

<u>Provisions and Contingencies</u>
Provisions are recognized when the Group 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.

Equity

Capital stock is measured at par value for all shares issued. When the Group 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 Group, 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 Group less dividends declared.

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 Parent Company 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.

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.

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is one that provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

The Group's operations are organized according to the nature of products and services provided. Financial information on business segments is presented in Note 6.

Events after the Financial Reporting Date

Post year-end events that provide additional information about the Group'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 Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Future Changes in Accounting Policies

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

PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*

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

PAS 12, *Income Taxes - Recovery of Underlying Assets*
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

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

PAS 27, *Separate Financial Statements (as revised in 2011)*
As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

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

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

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

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

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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

PFRS 12, *Disclosure of Interests with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. The Group has early adopted the first phase of PFRS 9. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The Group will assess the impact of other phases of PFRS 9 when issued.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing impact of the amendments to PAS 32.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group 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.

<u>Judgments</u>

a) *Financial assets not quoted in an active market (Prior to January 1, 2011)*
The Group 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.

b) *Contingencies*
The Group 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 Group's and the Parent Company's defense in these matters and is based upon an analysis of potential results. The Group 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 29).

c) *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 Parent Company determined that the RBU and FCDU's functional currency are Philippine peso and USD, respectively. In making this judgment, the Parent Company considers the following:

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

d) *Operating leases*
The Group 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 Group at the end of the lease term. The Group 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 on a straight-line basis in the statement of income (see Note 26).

e) *Business model test (from January 1, 2011)*
The Parent Company manages its financial assets based on a business model that maintains adequate level of financial assets to match the Parent Company's expected cash outflows, largely its core deposit funding, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Parent Company's business model allows for financial assets to be held to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Parent Company considers the following:

- sales of instruments which no longer meet the Parent Company's investment policy;
- sales of financial assets for capital expenditure need;
- sales of financial assets to reflect the change in expected timing of payouts;
- sales which are so close to maturity (e.g. less than three months) or the security's call date that changes in market value of interest would not have a significant effect on the security's fair value;
- sales of instruments that occur after the Parent Company has substantially collected all of the instruments' original principal through scheduled payments or prepayments;
- sales attributable to and in preparation for an isolated event that is beyond the Parent Company's control, is non-recurring and could not have been reasonably anticipated by the Parent Company;
- sales attributable to a change in tax law that eliminates or significantly reduces the tax exempt status of the interest on the security;
- sales attributable to a major combination or major disposition that necessitates the sale of securities to maintain the Parent Company's interest rate risk position or credit risk policy;
- sales attributable to a change in statutory or regulatory requirements significantly modifying either what constitutes a permissible investment or the maximum level of particular investments;
- sales attributable to a significant increase in regulatory capital requirements that causes the Parent Company to downsize by selling securities;
- sales attributable to significant increase in risk weights of securities used for regulatory risk-based capital purposes; and
- sales or derecognition attributable to the changes in the payment structure as initiated by the creditor (e.g. bond swap or exchange, options, changes in tenor and other related debt restructuring).

f) Cash flow characteristics test (from January 1, 2011)

Where the financial assets are classified as at amortized cost, the Group assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

Estimates

a) Impairment of financial assets at amortized cost

The Group 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 Group 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, 2011, loans and receivables of the Group are carried at ₱48.09 billion. As of December 31, 2011, 2010 and 2009, loans and receivables of the Parent Company are carried at ₱48.08 billion, ₱40.26 billion and ₱33.08 billion, respectively (see Note 10).

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, 2011, the Group's and Parent Company's derivative assets amounted to ₱0.45 million. As of December 31, 2010 and 2009, the Parent Company's derivative liabilities amounted to ₱35.98 million and ₱42.99 million, respectively (see Note 5).

c) Impairment of AFS equity investments (Prior to January 1, 2011)

The Group 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 Group treats 'significant' generally as 20.00% or more of the original cost of investment, and 'prolonged' as greater than 12 months. In addition, the Group 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 ₱77.33 million and ₱123.22 million, respectively (see Note 9).

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.

As of December 31, 2011, the Group recognized net deferred tax assets amounting to ₱927.93 million. As of December 31, 2011, 2010 and 2009, the net deferred tax assets of the Parent Company amounted to ₱1.12 billion, ₱1.27 billion and ₱1.08 billion, respectively (see Note 24).

e) Impairment of property and equipment and investment properties

The Group 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 Group 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, 2011, the Group's carrying value of the property and equipment and investment properties amounted to ₱1,947.72 million and ₱1,085.15 million, respectively. As of December 31, 2011, 2010 and 2009, the carrying value of the Parent Company's property and equipment amounted to ₱1,733.95 million, ₱1,266.43 million and ₱961.30 million, respectively (see Note 11). As of December 31, 2011, 2010 and 2009, the carrying value of the Parent Company's investment properties amounted to ₱866.10 million, ₱844.34 million and ₱ 817.19 million, respectively (see Note 12).

f) Impairment of Goodwill

The Group 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 Group has used the cost of equity as the discount rate for the value in use (VIU) computation. The Group 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 12.00%, 12.26% and 12.00% as of December 31, 2011, 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 Group 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, 2011, the carrying value of goodwill of the Group amounted to ₱1.29 billion. As of December 31, 2011, 2010 and 2009, the carrying value of the goodwill of the Parent Company amounted to ₱0.92 billion (see Note 13).

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

The Group 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, goodwill and branch licenses):

	Consolidated	Parent Company		
	2011	2011	2010	2009
Property and equipment (Note 11)	₱1,633,736	₱1,470,150	₱1,002,625	₱697,501
Investment properties (Note 12)	295,379	253,596	251,401	192,539
Other repossessed assets (Note14)	79,036	78,976	67,065	135,511
Intangible assets (Note 13)	517,529	508,258	459,076	407,901

h) Retirement obligation

The determination of the Group's and the Parent Company'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 25 and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Group 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.

As of December 31, 2011, the Group's net plan assets amounted to ₱2.40 million. As of December 31, 2011, 2010 and 2009, net plan assets of the Parent Company amounted to ₱19.14 million, ₱29.27 million and ₱43.05 million, respectively (see Note 25).

4. Financial Risk Management Objectives and Policies

Risk Management

To ensure that corporate goals and objectives and business and risk strategies are achieved, the Parent Company 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 Parent Company'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 Parent Company. These tools support the key risk process that involves identifying, measuring, controlling and monitoring risks.

Risk Management Structure

a. Board of Directors (BOD)

The Parent Company's risk culture is practiced and observed across the Group 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 Group. The BOD approves the Parent Company'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 Parent'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 Parent Company's established approving authorities which are approved by the Parent Company's BOD. At a high level, the BOD also approves the Parent Company'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 Parent Company'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 Parent Company's market, liquidity, and statement of financial position related risks. It monitors the Parent Company'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 Parent Company 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 Parent Company'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 Parent Company's risk exposures and estimates its impact on the Parent Company, evaluates the magnitude, direction and distribution of risks across the Parent Company 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 Parent Company'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 Parent Company whose primary responsibility is to oversee the Parent Company's credit risk-taking activities and overall adherence to the credit risk management framework, review business/credit risk strategies, quality and profitability of the Parent Company'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 Parent Company'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 Parent Company'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 Parent Company's financial statements, compliance, legal risk and overall policies and practices relating to risk management. It is tasked to discuss with management the Parent Company's major risk exposures and ensures accountability on the part of management to monitor and control such exposures including the Parent Company'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 Parent Company's selection or application of accounting principles; and major issues as to the adequacy of the Parent Company's internal controls; and the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Parent Company.

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 Parent Company's compliance program and ensures compliance issues are resolved expeditiously. It assists Board members in assessing whether the Parent Company 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 Parent Company. RMD is tasked with identifying, measuring, controlling and monitoring existing and emerging risks inherent in the Parent Company'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 Parent Company'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 Parent Company 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 Parent Company'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 Parent Company'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 Parent Company's financial statements, the Parent Company'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 risk refers to the potential loss of Parent Company earnings or capital arising from an obligor/s, customer/s or counterparty's failure to perform and/or to meet the terms of any contract with the Parent Company. Credit risks may last for the entire tenor and set at the full amount of a transaction and in some cases may exceed the original principal exposures. The risk may arise from lending, trade financing, trading, investments and other activities undertaken by the Parent Company. The Parent Company's credit risk and loan portfolio is managed by the RMD at the product and portfolio levels. The Parent Company has a structured and standardized credit rating and approval process according to the borrower or business and/or product segment. For large corporate credit transactions, the Parent Company has a comprehensive procedure for credit evaluation, risk assessment and well-defined concentration limits, which are established for each type of borrower.

Credit concentration
Excessive concentration of lending plays a significant role in the weakening of asset quality. The Parent Company reduces this risk by diversifying its loan portfolio across various sectors and borrowers. The Parent Company 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 Parent Company's loan portfolio in line with the Parent Company'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 Parent Company'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 Parent Company's loan facilities.

While there is currently no industry limit set, the Parent Company 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, 2011, 2010 and 2009

Maximum credit risk exposures
The following table shows the Group's and the Parent Company's maximum exposure to credit risk after taking into account any collateral held or other credit enhancements:

	Consolidated			Parent Company		
	2011					
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk
Loans and receivables						
Receivables from customers						
Corporate lending	₱18,504,449	₱1,167,279	₱17,337,170	₱19,504,449	₱1,167,279	₱18,337,170
Consumer lending	20,187,116	859,991	19,327,125	19,600,622	827,918	18,772,704
Residential mortgages	3,790,326	7,251,736	–	3,790,326	7,251,736	–
Small business lending	4,262,143	1,520,514	2,741,629	4,047,785	1,520,514	2,527,271
	₱46,744,034	₱10,799,520	₱39,405,924	₱46,943,182	₱10,767,447	₱39,637,145

	Parent Company					
	2010			2009		
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk
Loans and receivables						
Receivables from customers						
Corporate lending	₱17,838,491	₱ 1,280,705	₱16,557,786	₱10,911,293	₱1,930,167	₱8,981,126
Consumer lending	14,766,051	308,085	14,457,966	13,874,480	195,640	13,678,840
Residential mortgages	3,406,344	6,642,538	–	3,124,810	4,469,799	–
Small business lending	3,078,174	1,242,413	1,835,761	3,279,998	1,413,814	1,866,184
	₱39,089,060	₱9,473,741	₱32,851,513	₱31,190,581	₱8,009,420	₱24,526,150

Large exposures and top 20 borrowers

The table below summarizes the large exposures and top 20 borrowers of the Parent Company (amounts in billions):

	2011			
	Top 20 Borrowers		Large Exposures	
	Single Borrowers	Group Borrowers	Single Borrowers	Group Borrowers
Aggregate Exposure	₱11.65	₱12.18	₱8.70	₱8.74
Composite Risk Rating	2.66	2.82	2.34	2.34
Total Expected Loss/Aggregate Exposure	0.46%	0.54%	0.27%	0.27%

	2010			
	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, 2011, 2010 and 2009, the maximum credit exposure to any client or counterparty is about ₱2.35 billion, ₱1.88 billion and ₱1.50 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 Parent Company's net worth.

Concentration by industry

An industry sector analysis of the financial assets of the Group follows:

	2011			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱32,068,999	₱20,819,434	₱17,903,074	₱70,791,507
Real estate and renting and business activity	4,301,389	–	–	4,301,389
Private households with employed persons	36,317,514	–	–	36,317,514
Wholesale and retail trade, repair of motor vehicles	9,426,539	–	–	9,426,539
Manufacturing	4,453,446	–	–	4,453,446
Agriculture, fisheries and forestry	669,609	–	–	669,609
Transportation, storage and communication	1,475,176	–	–	1,475,176
Others****	12,264,472	–	–	12,264,472
	100,977,144	20,819,434	17,903,074	139,699,652
Allowance for credit losses	(3,110,043)	(27,016)	(47,215)	(3,184,274)
	₱97,867,101	₱20,792,418	₱17,855,859	₱136,515,378

* 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 FVTPL, Financial assets at FVTOCI and Investment securities at amortized cost
**** Pertains to unclassified loans and receivables, commitments and contingent accounts

An industry sector analysis of the financial assets of the Parent Company follows:

	2011			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱33,066,094	₱20,599,481	₱17,903,074	₱71,568,649
Real estate and renting and business activity	4,284,458	–	–	4,284,458
Private households with employed persons	36,317,514	–	–	36,317,514
Wholesale and retail trade, repair of motor vehicles	9,344,083	–	–	9,344,083
Manufacturing	4,440,698	–	–	4,440,698
Agriculture, fisheries and forestry	522,795	–	–	522,795
Transportation, storage and communication	1,471,685	–	–	1,471,685
Others****	11,522,759	–	–	11,522,759
	100,970,086	20,599,481	17,903,074	139,472,641
Allowance for credit losses	(3,110,043)	(27,016)	(47,215)	(3,184,274)
	₱97,860,043	₱20,572,465	₱17,855,859	₱136,288,367

* 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 FVTPL, Financial assets at FVTOCI and Investment securities at amortized cost
**** Pertains to unclassified loans and receivables, commitments and contingent accounts

	2010			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱11,081,606	₱15,452,638	₱20,664,115	₱47,198,359
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	20,664,115	119,462,559
Allowance for credit losses	(3,480,473)	(27,016)	(47,215)	(3,554,704)
	₱79,865,333	₱15,425,622	₱20,616,900	₱115,907,855

* 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 FVTPL 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	₱16,563,272	₱49,302,829
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	16,563,272	111,665,915
Allowance for credit losses	(3,272,772)	(27,016)	(51,612)	(3,351,400)
	₱73,251,017	₱18,551,838	₱16,511,660	₱108,314,515

* 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 FVTPL 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 Parent Company'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 Parent Company is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. It is the Parent Company'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 Parent Company does not occupy repossessed properties for business use.

As part of the Parent Company'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 outstanding loan portfolio of the Parent Company:

Security	Corporate Loans			Consumer Loans		
	2011	2010	2009	**2011**	2010	2009
REM*	**14.96%**	13.5%	14.3%	**14.07%**	18.4%	18.4%
Other Collateral**	**16.22%**	36.9%	27.7%	**30.05%**	28.1%	31.4%
Unsecured	**68.82%**	49.6%	58.0%	**55.88%**	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 Parent Company employs a credit scoring system for corporate loan exposures of borrowers with asset size of at least ₱15.00 million to assess risks relating to the borrower and the loan exposure. Borrower risk is evaluated by considering (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 Parent Company'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 Parent Company 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 Parent Company'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 Parent Company 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
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 Parent Company'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 Parent Company 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 Parent Company'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 Parent Company's rating policy. The risk ratings are assessed and updated regularly.

<u>Credit quality profile as of December 31, 2011, 2010 and 2009</u>

External ratings
The Parent Company 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 FVTPL, 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 of the Group:

	2011			
	AA/A	BB/B	Unrated	Total
Due from BSP	₱	₱	₱11,342,218	₱11,342,218
Due from other banks	976,563	577,795	184,730	1,739,088
IBLR and SPURA	533,094	7,190,000	–	7,723,094
Financial assets at FVTPL				
Government securities	–	3,903,332	–	3,903,332
Private bonds	347,430	1,273,025	219,475	1,839,930
Equity securities	88,361	–	–	88,361
	435,791	5,176,357	219,475	5,831,623
Investment securities at amortized cost				
Government securities	–	8,755,400	–	8,755,400
Private bonds	1,422,421	715,262	1,053,909	3,191,592
	1,422,421	9,470,662	1,053,909	11,946,992
Financial assets at FVTOCI				
Unquoted equity securities	–	–	14,422	14,422
	–	–	14,422	14,422
	₱3,367,869	₱22,414,814	₱12,814,754	₱38,597,437

The table below shows credit quality, based on external ratings, per class of financial assets that are neither past due nor impaired of the Parent Company:

	2011			
	AA/A	BB/B	Unrated	Total
Due from BSP	₱	₱	₱11,333,457	₱11,333,457
Due from other banks	765,371	577,795	184,730	1,527,896
IBLR and SPURA	533,094	7,190,000	–	7,723,094
Financial assets at FVTPL				
Government securities	–	3,903,332	–	3,903,332
Private bonds	347,430	1,273,025	219,475	1,839,930
Equity securities	88,361	–	–	88,361
	435,791	5,176,357	219,475	5,831,623
Financial assets – amortized cost				
Government securities	–	8,755,400	–	8,755,400
Private bonds	1,422,421	715,262	1,053,909	3,191,592
	1,422,421	9,470,662	1,053,909	11,946,992
Financial assets at FVTOCI				
Unquoted equity securities	–	–	14,422	14,422
	–	–	14,422	14,422
	₱3,156,677	₱22,414,814	₱12,805,993	₱38,377,484

	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 FVTPL				
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 FVTPL				
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 credit rating system, by class of loans and receivables that are neither past due nor impaired of the Group:

	2011				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers					
Corporate lending	₱15,143,320	₱5,001,878	₱720,669	₱	₱20,865,867
Consumer lending	1,151,806	11,630,710	12,178,959	10,565	24,972,040
	16,295,126	16,632,588	12,899,628	10,565	45,837,907
Unquoted debt securities	–	–	–	218,060	218,060
Accounts receivable	3,825	–	–	92,755	96,580
Accrued interest receivable	–	–	–	667,451	667,451
Sales contract receivable	–	–	–	95,514	95,514
	3,825	–	–	1,073,780	1,077,605
	₱16,298,951	₱16,632,588	₱12,899,628	₱1,084,345	₱46,915,512

The tables below show the credit quality, based on the credit rating system, by class of loans and receivables that are neither past due nor impaired of the Parent Company:

	2011				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers					
Corporate lending	₱15,143,320	₱6,001,878	₱720,669	₱	₱21,865,867
Consumer lending	271,724	11,595,997	12,178,959	–	24,046,680
	15,415,044	17,597,875	12,899,628	–	45,912,547
Unquoted debt securities	–	–	–	218,060	218,060
Accounts receivable	–	–	–	92,755	92,755
Accrued interest receivable	–	–	–	667,451	667,451
Sales contract receivable	–	–	–	95,514	95,514
	–	–	–	1,073,780	1,073,780
	₱15,415,044	₱17,597,875	₱12,899,628	₱1,073,780	₱46,986,327

	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 Parent Company 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 Parent Company has not yet established a credit rating system.

Impairment Assessment
On a regular basis, the Parent Company 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 Parent Company 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 Parent Company 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 the Parent Company's internal credit risk rating. Each internal credit risk rating would fetch an equivalent loss impairment where the estimated loss is determined in consideration of the Parent Company's historical loss experience. Impairment loss is derived by multiplying the outstanding loan balance on a per internal credit risk rating basis 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 internal credit risk rating of the Parent Company, 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 and data relevance on the business model. 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 of the Parent Company. Under PFRS 7, a financial asset is past due when a counterparty has failed to make payments when contractually due.

	Consolidated 2011					
	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	₱222	₱–	₱1,140	₱2,983	₱56,878	₱61,223
Consumer lending	12,668	13,597	53,524	88,956	146,603	315,346
	₱12,890	₱13,597	₱54,664	₱91,939	₱203,481	₱376,569

	Parent Company 2011					
	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	₱222	₱–	₱1,140	₱2,983	₱56,878	₱61,223
Consumer lending	10,291	11,220	51,147	86,579	144,226	303,463
	₱10,513	₱11,220	₱52,287	₱89,562	₱201,104	₱364,686

	Parent Company 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

	Parent Company					
	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.

Liquidity Risk

Liquidity risk is the risk that sufficient funds are unavailable to adequately meet all maturing liabilities, including demand deposits and off-balance sheet commitments. The main responsibility of daily asset liability management lies with the Treasury Group, specifically the Liquidity Desk, which is tasked to manage the Parent Company's balance sheet and have a thorough understanding of the risk elements involved in the business. The Parent Company'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 Parent Company 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 Parent Company 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 Parent Company and the circumstances under which such funds will be used.

By way of the Maximum Cumulative Outflow (MCO) limit, the Parent Company is able to manage its short-term liquidity risks by placing a cap on the outflow of cash on a cumulative basis. The Parent Company takes a multi-tiered approach to maintaining liquid assets. The Parent Company'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 Parent Company 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 financial assets and liabilities of the Parent Company, based on its internal methodology that manages liquidity based on contractual undiscounted cash flows (amounts in millions):

	Consolidated						
	2011						
	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*	₱9,088	₱7,830	₱762	₱409	₱139	₱4,835	₱23,063
Investments and trading securities**	–	388	268	1,146	962	15,162	17,926
Loans and receivables	397	7,577	6,479	3,974	1,131	30,397	49,955
	₱9,485	₱15,795	₱7,509	₱5,529	₱2,232	₱50,394	₱90,944
Financial Liabilities							
Deposit liabilities	₱509	₱3,244	₱3,696	₱2,000	₱2,300	₱65,028	₱76,777
Bills and acceptances payable	–	2,089	28	1	1	47	2,166
Subordinated debt	–	–	–	–	–	2,861	2,861
Other liabilities	518	166	31	12	2	2,291	3,020
Contingent liabilities	–	232	97	277	153	369	1,128
	₱1,027	₱5,731	₱3,852	₱2,290	₱2,456	₱70,596	₱85,952

* *Consist of cash and cash other items, due from BSP, due from other banks and interbank loans receivable and SPURA*
** *Consist of financial assets at FVTPL, financial assets at amortized cost and financial assets at FVTOCI*

	Parent Company						
	2011						
	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*	₱8,815	₱7,830	₱762	₱409	₱139	₱4,835	₱22,790
Investments and trading securities**	–	388	268	1,146	962	15,162	17,926
Loans and receivables	4	7,539	6,435	3,891	1,002	29,685	48,556
	₱8,819	₱15,757	₱7,465	₱5,446	₱2,103	₱49,682	₱89,272
Financial Liabilities							
Deposit liabilities	₱–	₱2,831	₱3,629	₱1,949	₱2,260	₱65,028	₱75,697
Bills and acceptances payable	–	2,086	27	–	–	47	2,160
Subordinated debt	–	–	–	–	–	2,750	2,750
Other liabilities	466	112	15	6	2	2,291	2,892
Contingent liabilities	–	232	97	277	153	369	1,128
	₱466	₱5,261	₱3,768	₱2,232	₱2,415	₱70,485	₱84,627

* *Consist of cash and cash other items, due from BSP, due from other banks and interbank loans receivable and SPURA*
** *Consist of financial assets at FVTPL, financial assets at amortized cost and financial assets at FVTOCI*

	Parent Company						
	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
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

	Parent Company						
	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
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 and SPURA
** Consist of financial assets at FVPL and AFS investments

The Parent Company manages liquidity by maintaining sufficient liquid assets in the form of cash and cash equivalents, investments and loan receivables with what it assesses to be sufficient of short-term loans. As of December 31, 2011, ₱32.60 billion or 61.00% of the Parent Company's total gross loans and receivables had remaining maturities of less than one (1) year. The total portfolio of trading and investment securities is comprised mostly of securities with remaining maturities of less than one year. The Parent Company 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, 2011.

Market Risk

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

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

The Parent Company applies 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 Parent Company 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 actual backtesting 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 660 bps increase in interest rates (the highest registered movement during the 1997 Asian financial crisis).

VaR assumptions
The VaR that the Parent Company 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 Parent Company'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 of the Parent Company.

	2011	2010	2009
Year-end VaR	₱32,347	₱220,616	₱213,515
Average VaR	155,428	276,108	220,334
Highest VaR	318,115	494,365	372,659
Lowest VaR	22,383	128,116	21,765

The year-end VaR for 2011 was based on a portfolio position size equal to ₱5.83 billion with an average yield of 4.41 % and average maturity of six years and six months, compared to last year's position size equal to ₱19.15 billion with an average yield of approximately 4.87% and average maturity of five years and eleven months. Government bonds comprise most of the Parent Company's securities.

Foreign Currency Risk
The Parent Company holds foreign currency denominated assets and liabilities, thus, fluctuations on the foreign exchange rates can affect the financial and cash flows of the Parent Company. 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 Parent Company.

As noted above, the Parent Company likewise applies the VaR methodology in estimating the potential loss of the Parent Company due to foreign currency fluctuations. The Parent Company 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 Parent Company's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. In 2011, 2010 and 2009, the Parent Company'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 Parent Company is engaged.

The VaR below pertains to foreign exchange risk of the Parent Company.

	2011	2010	2009
Year-end VaR	₱1,484	₱10	₱4,689
Average VaR	6,547	547	2,025
Highest VaR	31,433	7,549	7,888
Lowest VaR	1	–	33

Some of the Parent Company'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 exposure to foreign exchange risk of the Parent Company as of December 31, 2011, 2010 and 2009 (amounts in USD):

	2011		
	USD	Other currencies	Total
Assets			
Gross FX assets	$371,132	$1,191	$372,323
Contingent FX assets	206,895	–	206,895
	578,027	1,191	579,218
Liabilities			
Gross FX liabilities	245,907	551	246,458
Contingent FX liabilities	332,500	–	332,500
	578,407	551	578,958
Net exposure	($380)	$640	$260

	2010		
	USD	Other currencies	Total
Assets			
Gross FX assets	$472,033	$1,535	$473,568
Contingent FX assets	261,754	–	261,754
	733,787	1,535	735,322
Liabilities			
Gross FX liabilities	347,741	846	348,587
Contingent FX liabilities	393,320	–	393,320
	741,061	846	741,907
Net exposure	($7,274)	$689	($6,585)

	2009		
	USD	Other currencies	Total
Assets			
Gross FX assets	$422,802	$1,846	$424,648
Contingent FX assets	200,278	–	200,278
	623,080	1,846	624,926
Liabilities			
Gross FX liabilities	385,855	258	386,113
Contingent FX liabilities	242,632	–	242,632
	628,487	258	628,745
Net exposure	($5,407)	$1,588	($3,819)

The table below indicates the currencies to which the Parent Company had significant exposures as of December 31, 2011, 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 Parent Company's equity other than those already affecting the statements of income.

	2011			
Foreign currency appreciates (depreciates)	**USD**	**GBP**	**EUR**	**JPY**
+ 10.00%	**(₱1.66)**	**₱0.51**	**₱0.84**	**₱0.92**
- 10.00%	**1.66**	**(0.51)**	**(0.84)**	**(0.92)**

	2010			
Foreign currency appreciates (depreciates)	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 Parent Company'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 Parent Company 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 Parent Company'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 Parent Company'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 Parent Company as of December 31, 2011, 2010 and 2009:

	2011				
	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	3.42%	3.25%	–	–	–
Loans and receivables	6.03%	6.44%	6.95%	7.57%	13.51%
Investment securities	–	–	–	–	7.14%
Financial liabilities					
Deposit liabilities	3.18%	3.44%	5.22%	6.00%	6.61%
Bills payable	4.90%	5.00%	–	–	–
Subordinated debt	–	–	–	–	8.06%
FCDU					
Financial assets					
Cash and cash equivalents	0.17%	–	–	–	–
Loans and receivables	5.35%	5.82%	–	–	5.88%
Investment securities	8.25%	–	–	–	6.65%
Financial liabilities					
Deposit liabilities	1.32%	1.28%	1.40%	1.36%	1.58%

	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	3.93%	3.52%	3.50%	3.50%	–
Bills payable	3.75%	3.95%	5.25%	4.71%	5.96%
Subordinated debt	–	–	–	–	8.63%
FCDU					
Financial assets					
Cash and cash equivalents	0.19%	–	–	–	–
Loans and receivables	5.61%	5.90%	8.94%	7.33%	–
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 Parent Company as of December 31, 2011, 2010 and 2009 (amounts in millions):

	2011					
	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	₱7,965	₱5,985	₱–	₱–	₱–	₱13,950
Loans and receivables	14,436	5,717	2,130	3,457	10,543	36,283
Investment securities	387	–	–	–	14,136	14,523
Total financial assets	22,788	11,702	2,130	3,457	24,679	64,756
Financial liabilities						
Deposit liabilities	31,185	6,384	1,379	2,271	2,159	43,378
Bills and acceptances payable	2,086	27	–	–	–	2,113
Other liabilities	–	–	–	–	–	–
Subordinated debt	–	–	–	–	2,750	2,750
Contingent liabilities	202	112	271	25	–	610
Total financial liabilities	33,473	6,523	1,650	2,296	4,909	48,851
Asset-liability gap	(₱10,685)	₱5,179	₱480	₱1,161	₱19,770	₱15,905

	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 Parent Company could expect negative returns on the first month of 2012 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 2012, given that there is more interest earning assets than interest bearing liabilities expected to re-price within the 11-month period.

The Parent Company 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 Parent Company'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 Parent Company's non-trading net interest income before tax (amounts in millions). There is no other impact on the Parent Company's equity other than those already affecting the statements of income.

Change in basis points	2011	2010	2009
+100bps	(₱53.34)	₱33.713	₱10.159
-100bps	53.34	(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 Parent Company's financial instruments as of December 31, 2011, 2010 and 2009:

	2011			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and other cash items	₱2,243,104	₱2,243,104	₱2,190,159	₱2,190,159
Due from BSP	11,315,202	11,315,202	11,306,441	11,306,441
Due from other banks	1,739,088	1,739,088	1,527,896	1,527,896
IBLR and SPURA	7,723,094	7,723,094	7,723,094	7,723,094
Loans and receivables				
Receivables from customers				
Corporate lending	17,591,351	20,673,463	18,547,882	20,673,463
Consumer lending	21,538,532	21,206,671	20,576,154	21,200,750
Residential mortgages	3,625,887	2,440,529	3,625,868	2,440,529
Small business lending	4,049,959	3,910,196	4,049,938	3,910,196
Unquoted debt securities	218,231	218,231	217,610	217,610
Other Receivables	1,062,839	1,062,839	1,062,290	1,062,290
	48,086,799	49,511,929	48,079,742	49,504,838
	71,107,287	72,532,417	70,827,332	72,252,428
Financial assets at FVTPL				
Government securities	3,903,332	3,903,332	3,903,332	3,903,332
Private bonds	1,839,930	1,839,930	1,839,930	1,839,930
Equity securities	88,361	88,361	88,361	88,361
	5,831,623	5,831,623	5,831,623	5,831,623
Financial assets at FVOCI				
Quoted equity securities	1,510	1,510	1,510	1,510
Unquoted equity securities	75,734	75,734	75,734	75,734
	77,244	77,244	77,244	77,244
Investment securities at amortized cost				
Government securities	8,774,626	9,979,435	8,774,626	9,979,435
Private bonds	3,172,366	3,107,551	3,172,366	3,107,551
	11,946,992	13,086,986	11,946,992	13,086,986
	₱88,963,146	₱91,528,270	₱88,683,191	₱91,248,281

	2011			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Deposit liabilities				
Demand	₱21,787,662	₱21,787,662	₱21,714,348	₱21,714,348
Savings	11,476,140	11,476,140	10,469,622	10,469,622
Time	41,779,095	41,777,683	41,779,095	41,777,683
LTNCD	1,626,638	1,655,245	1,626,638	1,655,245
	76,669,535	76,696,730	75,589,703	75,616,898
Bills and acceptances payable	2,163,188	2,163,188	2,160,822	2,160,822
Accrued interest and other expenses	709,252	709,252	690,275	690,275
Cashier's checks and demand draft payable	452,569	452,569	452,569	452,569
Subordinated debt	2,861,282	3,556,714	2,750,000	3,376,081
Other liabilities	529,248	529,248	529,248	529,248
	83,385,074	84,107,701	82,172,617	82,825,893

	2010		2009	
	Parent Company			
	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 FVTPL				
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
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 Parent Company 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 Parent Company's current incremental lending rates for similar types of loans and receivables.

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

Equity securities (From January 1, 2011) - Fair values of quoted equity securities are based on quoted market prices. The costs of unquoted equity investments approximate their fair values since there is insufficient more recent information available to determine fair values and there are no indicators that cost might not be representative of fair value.

Equity securities (Prior to January 1, 2011) - 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.

Derivative instruments - Fair values of derivative instruments, mainly forward foreign exchange contracts, are valued using a valuation technique with market observable inputs. The most frequently applied valuation technique is forward pricing, which uses present value calculations. The model incorporates various inputs including the foreign exchange rates and interest rate curves prevailing at the statement of financial position date.

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 Parent Company's incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Fair Value Hierarchy
The Parent Company 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 of the Group and the Parent Company recorded at fair value by level of the fair value hierarchy:

	Consolidated		
	2011		
	Level 1	Level 2	Level 3
Financial assets at FVTPL	₱5,831,623	₱–	₱–
Financial assets at FVTOCI	77,244	–	–
Derivative assets	–	449	–

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

During the years ended December 31, 2011, 2010 and 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Derivative Financial Instruments
The Parent Company'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 Parent Company's derivative financial instruments and the related fair value as of December 31, 2011, 2010 and 2009:

	2011	2010	2009
Notional amount	$234,295	$131,566	$51,891
Derivative assets (liabilities)	₱449	(₱35,980)	(₱42,990)

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

	2011	2010	2009
Derivative assets (liabilities) at beginning of year	(₱35,980)	(₱42,990)	(₱2,147)
Changes in fair value of derivatives	(62,977)	(35,175)	(42,678)
Fair value of settled instruments	99,406	42,185	1,835
Derivative assets (liabilities) at end of year	₱449	(₱35,980)	(₱42,990)

6. Segment Reporting

The Group's main operating businesses are organized and managed primarily, according to the current organizational structure. Each segment represents a strategic business unit that caters to the bank's identified markets. The Group's business segments are:

(a) **Retail banking** – this segment mainly covers traditional branch banking products and services such as deposits, back-to-back/emerging market loans and other OTC (over-the-counter) transactions. It likewise caters to the needs of high net-worth clients for alternative investment channels. It includes entire transaction processing, service delivery and infrastructure consisting of the Group's network of branches, automated teller machines as well as its internet banking platform;

(b) **Corporate banking** – this segment handles lending and trade financing for both large corporations and middle market clients;

(c) **Consumer lending** – this segment primarily caters to loans for individuals;

(d) **Treasury and Trust** – this segment consists of Treasury and Trust operations of the Group. Treasury focuses on providing money market, trading and treasury services, as well as the management of the Group's funding operations through debt securities, placements and acceptances with other banks. Trust includes fund management, investment management services, custodianship, administration and collateral agency services, and stock and transfer agency services. In addition, the Parent Company through Trust, provides retail customers with alternative investment opportunities through its unit investment fund products;

(e) **Executive and Elimination Items** – this segment includes the Group's executive office and elimination items related to the Group's segment reporting framework.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment assets are those operating assets employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented. The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information of the Group as of and for the year ended December 31, 2011 follow (amounts in millions):

	Retail Banking	Corporate Banking	Consumer Banking	Treasury & Trust	Elimination Items	Total Bankwide
Statement of Income						
Net Interest Income						
Third Party	1,521	315	2,636	66	375	4,913
Intersegment	28	278	–	–	(306)	–
	1,549	593	2,636	66	69	4,913
Noninterest Income	513	79	1,325	551	(78)	2,390
Revenue - Net of Interest Expense	2,062	672	3,961	617	(9)	7,303
Noninterest Expense	(1,946)	(289)	(2,814)	(230)	88	(5,191)
Income Before Income Tax	116	383	1,147	387	79	2,112
Provision for Income Tax	(38)	(27)	(152)	(74)	(89)	(380)
Net Income for the Year	78	356	995	313	(10)	1,732
Statement of Financial Position						
Total Assets	17,478	25,190	26,822	11,489	15,028	96,007
Total Liabilities	78,687	14,654	1,011	3,846	(13,416)	84,782
Other Segment Information						
Depreciation and Amortization	189	18	158	17	19	401
Provision for Credit and Impairment Losses	–	9	920	–	(197)	732

Segment information of the Parent Company as of and for the years ended December 31, 2010 and 2009 follow (amounts in millions):

	2010					
	Retail Banking	Corporate Banking	Consumer Banking	Treasury & Trust	Elimination Items	Total Bankwide
Statement of Income						
Net Interest Income						
Third Party	1,323	318	2,237	309	131	4,318
Intersegment	28	251	-	-	(279)	-
	1,351	569	2,237	309	(148)	4,318
Noninterest Income	524	60	1,092	1,432	(32)	3,076
Revenue - Net of Interest Expense	1,875	629	3,329	1,741	(180)	7,394
Noninterest Expense	(1,697)	(408)	(2,516)	(205)	(789)	(5,615)
Income Before Income Tax	178	221	813	1,536	(969)	1,779
Provision for Income Tax	(29)	40	(176)	(84)	280	31
Net Income for the Year	149	261	637	1,452	(689)	1,810
Statement of Financial Position						
Total Assets	15,267	19,832	20,924	27,729	5	83,757
Total Liabilities	65,686	11,054	717	6,128	(9,587)	73,998
Other Segment Information						
Depreciation and Amortization	159	16	128	10	22	335
Provision for Credit and Impairment Losses	-	171	860	-	521	1,552

	2009					
	Retail Banking	Corporate Banking	Consumer Banking	Treasury & Trust	Elimination Items	Total Bankwide
Statement of Income						
Net Interest Income						
Third Party	1,053	201	1,747	73	456	3,530
Intersegment	18	146		-	(164)	-
	1,071	347	1,747	73	292	3,530
Noninterest Income	567	67	691	662	(66)	1,921
Revenue - Net of Interest Expense	1,638	414	2,438	735	226	5,451
Noninterest Expense	(1,430)	(473)	(2,573)	(152)	(153)	(4,781)
Income Before Income Tax	208	(59)	(135)	583	73	670
Provision for Income Tax	(117)	46	317	(87)	(207)	(48)
Net Income for the Year	91	(13)	182	496	(134)	622
Statement of Financial Position						
Total Assets	10,565	13,811	19,683	22,468	8,475	75,002
Total Liabilities	59,961	8,061	673	5,904	(7,736)	66,863
Other Segment Information						
Depreciation and Amortization	148	69	110	10	8	343
Provision for Credit and Impairment Losses	-	-	1,181	17	39	1,237

Noninterest income consists of service charges, fees and commissions, gain (loss) on sale of assets, gain on asset foreclosure and dacion transactions, trading and securities gain, foreign exchange gain, trust income and miscellaneous income. Noninterest expense consists of compensation and fringe benefits, taxes and licenses, depreciation and amortization, rent, amortization of intangible assets, provision for impairment and credit losses, and miscellaneous expenses.

7. Business Combination

Acquisition of Green Bank (a Rural Bank), Inc. (GBI)
On May 5, 2011, the Board of Directors of the Parent Company approved the acquisition of the outstanding shares of GBI. GBI is a rural bank in the Caraga region with branches scattered across the Visayas and Mindanao. On May 24, 2011, the Parent Company, GBI, and the majority shareholders of GBI entered into a Memorandum of Understanding to acquire the shares, representing 84.78% of the outstanding shares of GBI, and business of the latter.

On August 12, 2011, the BSP approved the acquisition of up to 100% of the total outstanding shares of GBI. On the same date, the BSP approved in-principle the granting of certain incentives to the Parent Company. Subsequently, on January 30, 2012, the Parent Company obtained the final approval of the BSP on the said incentives.

On August 19, 2011, the Parent Company acquired 84.78% of the voting shares of GBI. It is on this date that the Parent Company effectively obtained control of GBI. Consequently, the Parent Company had a tender offer to acquire the shares of the minority shareholders of GBI where 90.79% of the outstanding shares of GBI has been acquired by the Parent Company as of December 31, 2011.

The acquisition provides the Parent Company the opportunity to expand its nationwide footprint given GBI's wide network of 46 branches and 94 microfinance-oriented other banking offices and to pursue the microfinance model of GBI.

The Parent Company has elected to measure the non-controlling interest in the acquiree at their proportionate share of the acquiree's net identifiable assets and liabilities.

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

	Fair Value recognized on acquisition date
Assets	
Cash and other cash items	₱98,503
Due from BSP	10,843
Due from other banks	318,009
Loans and receivables	1,097,181
Property and equipment	220,035
Investment properties	186,377
Other assets	33,009
	1,963,957
Liabilities	
Deposit liabilities	1,193,553
Bills payable	1,062,878
Unsecured subordinated debt	111,282
Accrued taxes, interest and other expenses	206,388
Other liability	26,633
	2,600,734
Fair value of net liabilities acquired	(₱636,777)

In addition to the above identifiable assets and liabilities, the Group recognized the fair value of branch licenses acquired as a result of the business combination amounting to ₱625.40 million and the related deferred tax liability of ₱187.62 million.

Consideration for the acquisition	₱175,000
Fair value of net liabilities acquired, including the fair value of branch licenses, net of deferred tax liability	198,996
Goodwill	₱373,996

The goodwill recognized by the Parent Company can be attributed to factors such as increase in geographical presence and customer base due to branch licenses acquired.

Analysis of cash flows on acquisition:

Acquisition cost	₱158,548
Net cash acquired with the subsidiary*	(427,355)
Net cash inflow (included in cash flows from investing activities)	(₱268,807)

** includes Cash and other cash items, Due from BSP and Due from other banks.*

From the date of acquisition to December 31, 2011, the total operating income and net loss of GBI consolidated to the Parent Company amounted to ₱89.58 million and ₱5.00 million, respectively.

If the acquisition had taken place at the beginning of the year, the Parent Company's total operating income would have increased by ₱256.35 million while the Parent Company's net income before tax would have decreased by ₱275.61 million.

Acquisition of and Merger with AIGPASB, PAFLI and PFLHI
On January 23, 2009, the Parent Company 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 Parent Company 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 Parent Company and each respective seller. As of this date, the Parent Company 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 date
Assets	
Cash and other cash items	₱48,639
Due from BSP	502,356
Due from other banks	783,139
Interbank loans receivable and SPURA	895,000
AFS investments	46,247
HTM investments	561,408
Loans and receivables	8,046,461
Property and equipment	41,576
Investment properties	18,345
Deferred tax assets	238,812
Intangible assets (other than goodwill)	195,059
Other assets	79,459
	11,456,501
Liabilities	
Deposit liabilities	8,702,713
Bills payable	800,000
Manager's checks	95,692
Accrued taxes, interest and other expenses	134,272
Other liabilities	274,266
	10,006,943
Fair value of net assets acquired	**₱1,449,558**

The acquisition resulted in goodwill determined as follows:

Total cost of acquisition	₱2,218,600
Less: Fair value of net assets acquired	1,449,558
Goodwill	**₱769,042**

Cash flow on acquisition follows:

Cash and cash equivalents	₱2,229,134
Cash paid	2,172,004
Net cash inflow	₱57,130

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

If the combination had taken place at January 1, 2009, the Parent Company's total operating income would have increased by ₱334.26 million while the net income before tax would have increased by ₱2.52 million for the year ended December 31, 2009.

On March 27, 2009, the Plan of Merger was made and executed among the Parent Company, AIGPASB, PAFLI and PFLHI (collectively referred to as the 'Constituent Companies'). Considering that AIGPASB, PAFLI and PFLHI are wholly-owned subsidiaries of the Parent Company, their respective BOD and stockholders deemed it necessary and advisable to merge the Constituent Companies into one. 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 Parent Company, 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.

8. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	Consolidated		Parent Company	
	2011	2011	2010	2009
Securities purchased under resale agreements	₱7,190,000	₱7,190,000	₱	₱6,600,000
Interbank loans receivable	533,094	533,094	2,598,621	2,333,100
	₱7,723,094	₱7,723,094	₱2,598,621	₱8,933,100

As of December 31, 2011, government securities with face value amounting to ₱7.19 billion and fair value of ₱7.12 billion were pledged in favor of the Parent Company as collateral for SPURA amounting to ₱7.19 billion.

9. Trading and Investment Securities

This account consists of:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Financial assets at FVTPL	₱5,831,623	₱5,831,623	₱4,598,479	₱1,487,102
Financial assets at FVTOCI	77,244	77,244	–	–
AFS investments	–	–	16,018,421	15,024,558
Investment securities at amortized cost	11,946,992	11,946,992	–	–
	₱17,855,859	₱17,855,859	₱20,616,900	₱16,511,660

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

	Consolidated	Parent Company		
	2011	2011	2010	2009
Government securities	₱3,903,332	₱3,903,332	₱4,598,465	₱1,422,737
Private bonds	1,839,930	1,839,930	14	64,365
Equity securities	88,361	88,361	–	–
	₱5,831,623	₱5,831,623	₱4,598,479	₱1,487,102

Financial assets at FVTPL include net unrealized gains of ₱9.63 million, net unrealized loss of ₱42.31 million and net unrealized gains of ₱0.78 million for the years ended December 31, 2011, 2010 and 2009, respectively, reported under 'Trading and securities gain' in the statements of income.

Upon adoption of PFRS 9 effective January 1, 2011 (see Note 2), the Parent Company is allowed to classify only equity securities not held for trading as financial assets at FVTOCI. As of December 31, 2011, financial assets at FVTOCI consist of:

Quoted equity securities	₱1,510
Unquoted equity securities	122,948
	124,458
Allowance for impairment losses (Note 15)	(47,214)
	₱77,244

Quoted equity securities under FVTOCI consist of investments in Aboitiz Transport System and Roxas Holdings, Inc., while unquoted equity securities consist of investments in Asiatrust Development Bank, Inc., Victorias Milling Corporation, Maranaw Canning, Philippine Clearing House Corporation, Philippine Dealing System Holdings, Inc., and Caliraya golf shares.

The Group has designated the above equity investments at FVTOCI because they are held for long-term investments rather than for trading.

During 2011, no dividends were recognized on these equity investments. Also, no cumulative gain or loss was transferred within equity during 2011.

AFS investments of the Parent Company as of December 31, 2010 and 2009 consist of:

	2010	2009
Government securities	₱11,311,471	₱13,544,135
Private bonds	4,629,616	1,357,204
Unquoted equity securities	124,548	174,831
	16,065,635	15,076,170
Allowance for impairment losses (Note 15)	(47,214)	(51,612)
	₱16,018,421	₱15,024,558

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

Investment securities at amortized cost of the Group and the Parent Company as of December 31, 2011 consist of:

Government securities	₱8,774,626
Private bonds	3,172,366
	₱11,946,992

Peso-denominated government bonds bear nominal annual interest rates ranging from 5.75% to 13% in 2011, 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 3.88% to 9.88% in 2011, 4.00% to 10.63% in 2010 and 4.30% to 7.28% in 2009.

In 2011, the Parent Company participated in a debt exchange program for certain investments in government securities classified as financial assets at FVTPL and at amortized cost. The carrying amount of the financial assets at FVTPL surrendered amounted to ₱1.26 billion, and the carrying amount of the investment securities at amortized cost surrendered amounted to ₱3.27 billion. The fair value of the debt securities received amounted to ₱4.47 billion, and the Parent Company recognized a ₱0.04 billion loss on derecognition of financial assets at amortized cost and ₱0.01 billion loss on derecognition of financial assets at FVTPL included in the statement of income. The exchange of investment securities at amortized cost was executed because of a change in the debt structure initiated by the creditor. The management believes that participation in the bond swap is consistent with its business model of managing financial assets to collect contractual cash flows.

In 2010, the Parent Company 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 ₱3.93 billion which is equal to the carrying value of the securities surrendered. The Parent Company recognized ₱0.30 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 Parent Company 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 ₱1.74 billion and the carrying value of the debt securities surrendered amounted to ₱1.62 billion. This resulted in a recognition of trading and securities gain in the statement of income amounting to ₱0.12 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 Parent Company was prohibited from classifying securities as HTM investments for the next 2 years.

Interest income on trading and investment securities follows:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Financial assets at FVTPL	₱444,520	₱444,520	₱116,678	₱127,222
Investment securities at amortized cost	664,175	664,175	–	–
AFS investments	–	–	953,383	558,891
HTM investments	–	–	–	343,790
	₱1,108,695	₱1,108,695	₱1,070,061	₱1,029,903

Trading and securities gain consists of:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Financial assets at FVTPL	₱447,188	₱447,188	₱20,844	₱26,394
Investment securities at amortized cost	(44,440)	(44,440)	–	–
AFS investments	–	–	1,134,413	400,340
	₱402,748	₱402,748	₱1,155,257	₱426,734

10. Loans and Receivables

Loans and receivables consist of:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Receivables from customers				
Corporate lending	₱19,508,868	₱20,508,868	₱19,050,631	₱11,840,119
Consumer lending	24,059,806	23,053,919	17,785,494	17,055,655
Residential mortgages	3,791,747	3,791,747	3,408,869	3,142,238
Small business lending	4,320,595	4,320,595	3,247,380	3,400,588
	51,681,016	51,675,129	43,492,374	35,438,600
Unearned discounts	(2,241,292)	(2,241,292)	(1,487,976)	(1,318,497)
	49,439,724	49,433,837	42,004,398	34,120,103
Unquoted debt securities				
Government securities	50,618	49,997	127,575	288,825
Private bonds	339,448	339,448	316,657	437,112
	390,066	389,445	444,232	725,937
Other receivables				
Accounts receivable	539,924	539,796	488,579	875,583
Accrued interest receivable	667,477	667,451	652,629	490,102
Sales contract receivable	159,651	159,256	154,931	137,961
	1,367,052	1,366,503	1,296,139	1,503,646
	51,196,842	51,189,785	43,744,769	36,349,686
Allowance for credit and impairment losses (Note 15)	(3,110,043)	(3,110,043)	(3,480,474)	(3,272,772)
	₱48,086,799	₱48,079,742	₱40,264,295	₱33,076,914

Credit card receivables, under consumer lending, amounted to ₱12.71 billion, ₱10.47 billion and ₱9.32 billion as of December 31, 2011, 2010 and 2009, respectively.

Receivables from customers consist of:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Loans and discounts	₱48,844,902	₱48,839,015	₱39,355,734	₱32,972,621
Customers' liabilities under letters of credit/ trust receipts	1,927,772	1,927,772	1,605,241	1,312,292
Bills purchased	908,342	908,342	2,531,399	1,153,687
	₱51,681,016	₱51,675,129	₱43,492,374	₱35,438,600

In 2001, a memorandum of understanding between the Parent Company 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 Parent Company 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 Parent Company without recourse under the terms of the foregoing assignment agreement amounted to ₱77.69 million, ₱105.92 million and ₱167.43 million as of December 31, 2011, 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 for the Group and Parent Company follows:

	2011					
	Corporate Lending	Consumer Lending	Residential Mortgages	Small Business Lending	Others	Total
At January 1	₱1,169,698	₱1,715,000	₱2,453	₱28,187	₱565,136	₱3,480,474
Provision for impairment and credit losses (Note 15)	30,709	608,266	–	55,073	–	694,048
Reclassification from other assets	56,347	–	–	–	–	56,347
Write-off (Note 15)	(156,289)	(845,412)	(1,032)	–	(89,087)	(1,091,820)
Interest accrued on impaired loans	(29,006)	–	–	–	–	(29,006)
At December 31	₱1,071,459	₱1,477,854	₱1,421	₱83,260	₱476,049	₱3,110,043
Specific impairment	₱812,909	₱	₱	₱	₱	₱812,909
Collective impairment	258,550	1,477,854	1,421	83,260	476,049	2,297,134
	₱1,071,459	₱1,477,854	₱1,421	₱83,260	₱476,049	₱3,110,043
Gross amount of individually impaired loans	₱1,415,993	₱	₱	₱	₱	₱1,415,993

	Parent Company					
	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 15)	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)
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

	Parent Company					
	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 15)	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 Parent Company took possession of various properties previously held as collateral with an estimated value of ₱358.28 million in 2011, ₱321.62 million in 2010 and ₱440.92 million in 2009 (see Notes 12 and 14).

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

	Consolidated			Parent Company		
	2011					
	Specific Impairment	Collective Impairment	Total	Specific Impairment	Collective Impairment	Total
At January 1	₱941,857	₱2,538,617	₱3,480,474	₱941,857	₱2,538,617	₱3,480,474
Provision for impairment and credit Losses	–	694,048	694,048	–	694,048	694,048
Reclassification from other assets	56,347	–	56,347	56,347	–	56,347
Write-off	(156,289)	(935,531)	(1,091,820)	(156,289)	(935,531)	(1,091,820)
Interest accrued on impaired loans	(29,006)	–	(29,006)	(29,006)	–	(29,006)
At December 31	₱812,909	₱2,297,134	₱3,110,043	₱812,909	₱2,297,134	₱3,110,043

	Parent Company					
	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
Reclassification from other assets	–	–	–	–	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, 2011, 2010 and 2009 consist of:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Receivables from customers	₱5,389,982	₱5,319,707	₱4,478,792	₱3,808,038
Unquoted debt securities	31,242	31,224	23,754	70,012
Interest accrued on impaired loans	29,006	29,006	15,535	6,201
	₱5,450,230	₱5,379,937	₱4,518,081	₱3,884,251

BSP Reporting

Of the total receivables from customers of the Parent Company as of December 31, 2011, 2010 and 2009, 41.73%, 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 2.23% to 23.86%, 2.78% to 18.50% and 7.77% to 12.19% in 2011, 2010 and 2009, respectively, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 2.78% to 9.00%, 5.00 % to 8.00% and 5.61% to 8.94% in 2011, 2010 and 2009, respectively.

The details of the secured and unsecured loans receivables of the Group and the Parent Company follow:

	Consolidated		Parent Company					
	2011		2011		2010		2009	
	Gross Amount	%	Gross Amount	%	Gross Amount	%	Gross Amount	%
Loans secured by:								
Chattel	₱8,595,974	16.63	₱8,595,974	16.64	₱7,186,981	16.52	₱9,069,332	25.59
Real estate	7,469,869	14.45	7,468,758	14.45	6,570,061	15.11	6,078,153	17.15
Hold-out on deposit	854,733	1.65	854,733	1.65	741,803	1.71	382,563	1.08
Others	2,966,896	5.74	2,966,896	5.74	6,641,219	15.27	1,467,616	4.14
	19,887,472	38.48	19,886,361	38.48	21,140,064	48.61	16,997,664	47.96
Unsecured	31,793,544	61.52	31,788,768	61.52	22,352,310	51.39	18,440,936	52.04
	₱51,681,016	100.00	₱51,675,129	100.00	₱43,492,374	100.00	₱35,438,600	100.00

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

	Consolidated		Parent Company					
	2011		2011		2010		2009	
	Gross Amount	%	Gross Amount	%	Gross Amount	%	Gross Amount	%
Personal consumption	₱22,682	43.89	₱22,678	43.89	₱17,229	39.61	₱16,293	45.98
Wholesale and retail trade	8,283	16.03	8,283	16.03	5,601	12.88	5,876	16.58
Real estate, renting and business services	4,095	7.92	4,094	7.92	4,076	9.37	5,043	14.23
Financial intermediaries	5,355	10.36	5,355	10.36	3,492	8.03	1,474	4.16
Manufacturing	3,549	6.87	3,548	6.87	3,024	6.95	2,825	7.97
Transport, storage and communications	1,383	2.68	1,383	2.68	1,034	2.38	948	2.67
Agriculture, fisheries and forestry	521	1.01	521	1.01	3,565	8.20	456	1.29
Others	5,813	11.25	5,813	11.25	5,471	12.58	2,523	7.12
	51,681	100.00	₱51,675	100.00	₱43,492	100.00	₱35,438	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, 2011, 2010 and 2009, NPLs of the Group and the Parent Company not fully covered by allowance for credit losses follow:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Total NPLs	₱3,591,747	₱3,187,994	₱3,085,128	₱3,748,669
NPLs fully covered by allowance for credit and impairment losses	(1,447,127	(1,302,365	(1,654,788	(1,499,813
	₱2,144,620	₱1,885,629	₱1,430,340	₱2,248,856

As of December 31, 2011, 2010 and 2009, secured and unsecured NPLs of the Group and the Parent Company follow:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Secured	₱1,452,823	₱1,371,270	₱1,367,703	₱1,701,133
Unsecured	2,138,924	1,816,724	1,717,425	2,047,536
	₱3,591,747	₱3,187,994	₱3,085,128	₱3,748,669

11. Property and Equipment

The composition of and movements in the Group's property and equipment follow:

	2011					
	Land	Buildings	Construction in Progress	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
As of January 1	₱263,804	₱70,012	₱318,591	₱1,031,494	₱680,858	₱2,364,759
Additions	25,124	105	219,201	272,736	207,738	724,904
Acquisitions from business combination	25,053	64,656	–	71,730	58,596	220,035
Disposals	–	–	–	(15,566)	–	(15,566)
As of December 31	313,981	134,773	537,792	1,360,394	947,192	3,294,132
Accumulated depreciation and amortization						
As of January 1	–	18,485	–	734,303	345,542	1,098,330
Depreciation and Amortization	–	19,046	–	163,028	79,428	261,502
Disposals	–	–	–	(13,417)	–	(13,417)
As of December 31	–	37,531	–	883,914	424,970	1,346,415
Net book value	₱313,981	₱97,242	₱537,792	₱476,480	₱522,222	₱1,947,717

The composition of and movements in the Parent Company's property and equipment follow:

	2011					
	Land	Buildings	Construction in Progress	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
As of January 1	₱263,804	₱70,012	₱318,591	₱1,031,494	₱680,858	₱2,364,759
Additions	–	105	219,201	272,736	207,738	699,780
Disposals	–	–	–	(15,566)	–	(15,566)
As of December 31	263,804	70,117	537,792	1,288,664	888,596	3,048,973
Accumulated depreciation and amortization						
As of January 1	–	18,485	–	734,303	345,542	1,098,330
Depreciation and Amortization	–	2,398	–	163,028	64,680	230,106
Disposals	–	–	–	(13,417)	–	(13,417)
As of December 31	–	20,883	–	883,914	410,222	1,315,019
Net book value	₱263,804	₱49,234	₱537,792	₱404,750	₱478,374	₱1,733,954

	2010					
	Land	Buildings	Construction in Progress	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
As of January 1	₱263,804	₱72,638	₱180,799	₱905,468	₱504,479	₱1,927,188
Additions	–	397	137,792	177,765	189,141	505,095
Disposals	–	(3,023)	–	(51,739)	(12,762)	(67,524)
As of December 31	263,804	70,012	318,591	1,031,494	680,858	2,364,759
Accumulated depreciation and amortization						
As of January 1	–	16,896	–	657,156	291,831	965,883
Depreciation and Amortization	–	2,368	–	108,676	54,519	165,563
Disposals	–	(779)	–	(31,529)	(808)	(33,116)
As of December 31	–	18,485	–	734,303	345,542	1,098,330
Net book value	₱263,804	₱51,527	₱318,591	₱297,191	₱335,316	₱1,266,429

	2009					
	Land	Buildings	Construction in Progress	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
As of January 1	₱269,306	₱74,382	₱	₱585,165	₱389,702	₱1,318,555
Additions	–	3,210	180,799	142,192	111,764	437,965
Additions from business combination	–	–	–	181,976	3,013	184,989
Disposals	(5,502)	(4,954)		(3,865)		(14,322)
As of December 31	263,804	72,638	180,799	905,468	504,479	1,927,188
Accumulated depreciation and amortization						
As of January 1	–	16,351	–	407,494	247,006	670,851
Depreciation and amortization	–	2,555	–	108,524	44,825	155,904
Acquired from business combination	–	–	–	143,412	–	143,412
Disposals		(2,010)	–	(2,274)	–	(4,284)
As of December 31	–	16,896		657,156	291,831	965,883
Net book value	₱263,804	₱55,742	₱180,799	₱248,312	₱212,648	₱961,305

As of December 31, 2011, 2010 and 2009, the cost of fully depreciated property and equipment still in use by the Parent Company amounted to ₱383.63 million, ₱375.12 million and ₱40.91 million, respectively.

Construction in progress pertains to the various expenditures incurred by the Parent Company for the construction of a building in The Fort Global City, Taguig. In 2007, the Parent Company entered into a memorandum of agreement with FDC for the construction of a building in The Fort Global City, Taguig. The Parent Company contributes cash to be used for the ongoing construction of the building. The Parent Company will own certain commercial floors to be used as its office space.

12. Investment Properties

The composition of and movements in the Group's investment properties follow:

	2011		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱763,121	₱414,696	₱1,177,817
Additions	128,535	105,238	233,773
Acquisitions from business combination	150,424	35,953	186,377
Disposals	(113,101)	(50,387)	(163,488)
At December 31	928,979	505,500	1,434,479
Accumulated depreciation and amortization			
At January 1	–	149,771	149,771
Depreciation and amortization	–	45,046	45,046
Disposals	–	(10,773)	(10,773)
At December 31	–	184,044	184,044
Accumulated impairment losses (Note 15)			
At January 1	170,181	13,524	183,705
Provision for impairment losses	11,934	18,966	30,900
Disposals	(42,911)	(6,413)	(49,324)
At December 31	139,204	26,077	165,281
Net book value	₱789,775	₱295,379	₱1,085,154

The composition of and movements in the Parent Company's investment properties follow:

	2011		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱763,121	₱414,696	₱1,177,817
Additions	85,538	93,236	178,774
Disposals	(96,949)	(48,284)	(145,233)
At December 31	751,710	459,648	1,211,358
Accumulated depreciation and amortization			
At January 1	–	149,771	149,771
Depreciation and amortization	–	40,391	40,391
Disposals	–	(10,773)	(10,773)
At December 31	–	179,389	179,389
Accumulated impairment losses (Note 15)			
At January 1	170,181	13,524	183,705
Provision for impairment losses	11,934	18,966	30,900
Disposals	(42,911)	(5,827)	(48,738)
At December 31	139,204	26,663	165,867
Net book value	₱612,506	₱253,596	₱866,102

	2010		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱806,244	₱373,102	₱1,179,346
Additions	66,053	80,925	146,978
Disposals	(109,176)	(39,331)	(148,507)
At December 31	763,121	414,696	1,177,817
Accumulated depreciation and amortization			
At January 1	–	123,207	123,207
Depreciation and amortization	–	35,131	35,131
Disposals	–	(8,567)	(8,567)
At December 31	–	149,771	149,771
Accumulated impairment losses (Note 15)			
At January 1	181,592	57,356	238,948
Provision for impairment losses	14,316	(40,171	(25,855)
Disposals	(25,727)	(3,661)	(29,388)
At December 31	170,181	13,524	183,705
Net book value	₱592,940	₱251,401	₱844,341

	2009		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱730,234	₱232,327	₱962,561
Additions	118,968	176,978	295,946
Additions from business combination	–	18,345	18,345
Disposals	(42,958)	(54,548)	(97,506)
At December 31	806,244	373,102	1,179,346
Accumulated depreciation and amortization			
At January 1	–	51,313	51,313
Depreciation and amortization	–	89,044	89,044
Disposals	–	(17,150)	(17,150)
At December 31	–	123,207	123,207
Accumulated impairment losses (Note 15)			
At January 1	186,304	57,456	243,760
Provision for impairment losses	–	619	619
Disposals	(4,712)	(719)	(5,431)
At December 31	181,592	57,356	238,948
Net book value	₱624,652	₱192,539	₱817,191

The Group's and Parent Company'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 Group amounted to ₱1.40 billion as of December 31, 2011. The aggregate fair value of the investment properties of the Parent Company amounted to ₱1.18 billion, ₱1.08 billion and ₱1.09 billion as of December 31, 2011, 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, 2011, 2010 and 2009, foreclosed investment properties of the Parent Company still subject to redemption period by the borrower amounted to ₱45.96 million, ₱81.87 million and ₱108.37 million, respectively.

Direct operating expenses from investment properties of the Parent Company not generating rent income amounted to ₱55.96 million, ₱64.39 million and ₱107.02 million in 2011, 2010 and 2009, respectively.

13. Goodwill and Other Intangible Assets

As of December 31, 2011, the intangible assets of the Group consist of:

	2011					
	Goodwill	Branch License	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
As of January 1, 2011	₱919,254	₱	₱154,626	₱40,433	₱412,890	₱1,527,203
From business combination	373,996	625,400	–	–	–	999,396
Acquisitions	–	–	–	–	135,241	135,241
Write-off (Note 23)	–	–	–	–	(1,542)	(1,542)
As of December 31, 2011	1,293,250	625,400	154,626	40,433	546, 589	2,660,298
Accumulated amortization						
As of January 1, 2011	–	–	7,905	7,413	133,555	148,873
Amortization	–	–	5,423	2,931	66,892	75,246
As of December 31, 2011	–	–	13,328	10,344	199,587	224,119
Net book value	₱1,293,250	₱625,400	₱141,298	₱30,089	₱346,142	₱2,436,179

As of December 31, 2011, 2010 and 2009, the intangible assets of the Parent Company consist of:

	2011				
	Goodwill	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost					
As of January 1, 2011	₱919,254	₱154,626	₱40,433	₱412,890	₱1,527,203
Acquisitions	–	–	–	123,569	123,569
As of December 31, 2011	919,254	154,626	40,433	536,459	1,650,772
Accumulated amortization					
As of January 1, 2011	–	7,905	7,413	133,555	148,873
Amortization	–	5,423	2,931	66,033	74,387
As of December 31, 2011	–	13,328	10,344	199,588	223,260
Net book value	₱919,254	₱141,298	₱30,089	₱336,871	₱1,427,512

	2010				
	Goodwill	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost					
As of January 1, 2010	₱919,254	₱154,626	₱40,433	₱277,406	₱1,391,719
Acquisitions	–	–	–	136,296	136,296
Write-off (Note 23)	–	–	–	(812)	(812)
As of December 31, 2010	919,254	154,626	40,433	412,890	1,527,203
Accumulated amortization					
As of January 1, 2010	–	3,594	3,369	57,600	64,564
Amortization	–	4,312	4,043	75,955	84,309
As of December 31, 2010	–	7,906	7,412	133,555	148,873
Net book value	₱919,254	₱146,720	₱33,021	₱279,335	₱1,378,330

	2009				
	Goodwill	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost					
As of January 1, 2009	₱150,212	₱	₱	₱106,876	₱257,088
Acquisitions from business combination	769,042	154,626	40,433	–	964,101
Acquisitions	–	–	–	175,062	175,062
Write-off (Note 23)	–	–	–	(4,532)	(4,532)
As of December 31, 2009	919,254	154,626	40,433	277,406	1,391,719
Accumulated amortization					
As of January 1, 2009	–	–	–	651	651
Amortization	–	3,594	3,370	56,949	63,913
As of December 31, 2009	–	3,594	3,370	57,600	64,564
Net book value	₱919,254	₱151,032	₱37,063	₱219,806	₱1,327,155

The acquisition of GBI in 2011 resulted in goodwill amounting to ₱374.00 million and branch licenses amounting to ₱625.40 million. The goodwill has been allocated to branch operations (see Note 7).

The business combination between the Parent Company and AIGPASB Group in 2009 resulted in goodwill amounting to ₱769.04 million and other intangible assets such as customer relationship and core deposits amounting to ₱154.63 million and ₱40.43 million, respectively. The goodwill has been allocated to the auto and credit cards lending unit acquired from the AIG Group (see Note 7).

The business combination between the Parent Company and Ecology Savings Bank Inc. (ESBI) in 2003 resulted in goodwill amounting to ₱172.80 million, which has been allocated to various branches acquired from ESBI. As of December 31, 2011, 2010 and 2009, the remaining goodwill amounted to ₱150.21 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 12.00%, 12.26% and 12.00% in 2011, 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. Other Assets

This account consists of:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Security deposits	₱307,197	₱307,197	₱287,822	₱268,211
Prepaid expenses	141,072	138,284	107,932	56,006
Other repossessed assets	85,972	85,912	75,648	194,169
Returned cash and other cash items	36,559	36,559	54,662	38,795
Plan asset	2,400	19,140	29,271	43,046
Miscellaneous	132,078	88,600	187,567	674,493
	705,278	675,692	742,902	1,274,720
Allowance for impairment losses (Note 15)	(58,804)	(58,804)	(116,799)	(195,024)
	₱646,474	₱ 616,888	₱626,103	₱1,079,696

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

The movements in other repossessed assets follow:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Cost				
As of January 1	₱96,431	₱96,431	₱229,619	₱228,394
Additions	179,502	179,502	174,637	144,970
Acquired from business combination	60	–	–	–
Disposals	(178,060)	(178,060)	(307,825)	(143,745)
As of December 31	97,933	97,873	96,431	229,619
Accumulated depreciation				
As of January 1	20,783	20,783	35,450	26,126
Depreciation and amortization	19,402	19,402	50,159	33,745
Disposals	(28,224)	(28,224)	(64,826)	(24,421)
As of December 31	11,961	11,961	20,783	35,450
Accumulated impairment losses				
As of January 1	8,584	8,584	58,658	67,877
Provision (reversal) of impairment losses	6,900	6,900	(1,634)	(9,219)
Disposals	(8,548)	(8,548)	(48,439)	–
As of December 31	6,936	6,936	8,583	58,658
Net book value	₱79,036	₱78,976	₱67,065	₱135,511

15. Allowance for Impairment and Credit Losses

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

	Consolidated	Parent Company		
	2011	2011	2010	2009
Balances at the beginning of year				
Due from BSP	₱27,016	₱27,016	₱27,016	₱45,186
Financial assets at FVTOCI (Note 9)	47,214	47,214	–	–
AFS investments (Note 9)	–	–	51,612	50,061
Loans and receivables (Note 10)	3,480,474	3,480,474	3,272,772	1,517,895
Investment properties (Note 12)	183,705	183,705	238,948	243,760
Other assets (Note 14)	116,799	116,799	195,024	136,119
	3,855,208	3,855,208	3,785,372	1,993,021
Provisions charged to current operations (Note 10, 12 and 14)	731,848	731,848	1,552,211	1,237,231
Acquired from merger			–	690,054
Interest accrued on impaired loans	(29,006)	(29,006)	(15,535)	(6,201)
Write-off of loans and receivables	(1,091,820)	(1,091,820)	(1,356,463)	(114,083)
Reversal of allowance on disposals of investment properties and other repossessed other assets (Notes 12 and 14)	(57,286)	(57,286)	(84,405)	(14,650)
Write-off of other assets	–	–	(25,972)	–
Balances at the end of year				
Due from BSP	₱27,016	₱27,016	₱27,016	₱27,016
Financial assets at FVTOCI (Note 9)	47,214	47,214	–	–
AFS investments (Note 9)	–	–	47,214	51,612
Loans and receivables (Note 10)	3,110,043	3,110,043	3,480,474	3,272,772
Investment properties (Note 12)	165,867	165,867	183,705	238,948
Other assets (Note 14)	58,804	58,804	116,799	195,024
	₱3,408,944	₱3,408,944	₱3,855,208	₱3,785,372

16. 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 10.00% starting August 5, 2011 (under BSP Circular No. 732). Prior to August 5, 2011, statutory reserve equivalent was 9.00%. As of December 31, 2011, 2010 and 2009, the Parent Company is in compliance with such regulations.

The following assets of the Parent Company were set aside as reserves as of December 31, 2011, 2010 and 2009 (as reported to the BSP):

	Parent Company		
	2011	2010	2009
Cash and other cash items	₱1,840,543	₱2,027,569	₱1,320,113
Due from BSP	4,577,043	3,953,460	6,333,302
	₱6,417,586	₱5,981,029	₱7,653,415

Of the total deposit liabilities of the Parent Company as of December 31, 2011, 2010 and 2009, about 57.31%, 61.73% and 64.67%, respectively, are subject to periodic interest repricing. The long-term negotiable certificates of deposits earn annual fixed interest rates of 7.25%. The remaining deposit liabilities earn annual fixed interest rates ranging from 1.28% to 6.61% in 2011, from 0.75% to 5.50% in 2010 and from 1.25% to 5.88% in 2009.

The Group's interest expense on deposit liabilities amounted to ₱1.48 billion in 2011. The Parent Company's interest expense on deposit liabilities amounted to ₱1.47 billion in 2011, ₱1.33 billion in 2010 and ₱1.44 billion in 2009.

17. Bills and Acceptances Payable

This account consists of borrowings from:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Banks and other financial institutions	₱2,113,839	₱2,113,839	₱3,000	₱718,505
Outstanding acceptances	46,983	46,983	60,772	12,674
BSP	2,366	–	97,369	1,226,458
	₱2,163,188	₱2,160,822	₱161,141	₱1,957,637

As of December 31, 2011, investments in government securities of the Parent Company (included in 'Investment securities at amortized cost' in the statements of financial position) with face value of ₱4.61 billion and fair value of ₱5.63 billion were pledged with other banks as collateral for borrowings amounting to ₱2.11 billion.

Bills payable to the BSP, other banks and other financial institutions are subject to annual interest rates ranging from 4.69% to 5.00% in 2011, 2.63% to 4.00% in 2010 and from 2.47% to 5.84% in 2009.

The Group's interest expense on bills and acceptances payable amounted to ₱147.26 million in 2011. The Parent Company's interest expense on bills and acceptances payable amounted to ₱133.41 million in 2011, ₱74.97 million in 2010 and ₱118.90 million in 2009.

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Accrued expenses	₱397,855	₱396,618	₱448,104	₱213,780
Accrued interest payable	307,524	296,375	274,435	197,442
Accrued other taxes	47,379	40,788	30,925	71,402
	₱752,758	₱ 733,781	₱753,464	₱482,624

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

19. Subordinated Debt

Subordinated debt consists of (in millions):

	Consolidated		Parent Company	
	2011	2011	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	₱1,500	₱1,500	₱
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	1,250	1,250	1,250
Lower tier 2 unsecured subordinated notes, with step-up interest, due March 13, 2018. Interest rate is 9.72% per annum.	111	–	–	–
	₱2,861	₱2,750	₱2,750	₱1,250

On July 2, 2010, the Parent Company issued ₱1.50 billion lower tier 2 unsecured subordinated notes (the Notes). 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 Parent Company issued ₱1.25 billion lower tier 2 unsecured subordinated notes (the Notes). 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.

On March 12, 2008, the subsidiary issued ₱112.50 million callable Unsecured Subordinated Notes (the Notes) in favor of Land Bank of the Philippines (LBP) due on March 13, 2018 with step-up on March 13, 2013. The issuance of the Notes under the terms approved by the BOD was approved by the BSP on February 14, 2008.

Among the significant terms and conditions of the issuance of the Notes are:

a. The Notes must be issued and fully paid up. Only the net proceeds received from the issuance of Notes shall be included as capital.

b. The Notes bear interest at 9.72% per annum (5-year bond quoted in Philippine Dealing System Treasury Fixing (PDST-F) at the time of the release plus a spread of 3.00% per annum or 9.00% per annum, whichever is higher) for the first five years of the term, payable quarterly. On the next 5 years, the rate will be reset at 5-year PDST-F at the time of extension plus a spread of 4.00% per annum or 10.00% per annum, whichever is higher, subject to allowable interest rate step-up regulation of the BSP.

c. The Notes are neither secured nor covered by a guarantee by the subsidiary or related party of the subsidiary or other arrangement that legally or economically enhances the priority of the claim of any holder or the Notes as against depositors and other creditors.

d. The Notes shall not have a priority claim, in respect of principal and coupon payments in the event of winding up of the Issuer, which is higher than or equal with that of depositors and other creditors.

e. The Notes cannot be terminated by LBP before maturity date.

f. LBP cannot set off any amount that it may owe to the Subsidiary against the Notes.

g. The payment of principal may be accelerated only in the event of insolvency of the subsidiary.

h. The coupon rate or the formulation for calculating coupon payments shall be fixed at the time of the issuance of the Notes and may not be linked to the credit standing of the Subsidiary.

The Group's interest expense on subordinated debt in 2011 amounted to ₱223.96 million. The Parent Company's interest expense on subordinated debt amounted to ₱220.31 million in 2011, ₱163.40 million in 2010, and ₱107.81 million in 2009.

20. Other Liabilities

This account consists of:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Bills purchased - contra	₱741,010	₱741,010	₱2,500,335	₱1,094,969
Accounts payable	633,205	515,376	570,458	675,341
Deferred revenue	258,943	242,121	293,013	215,574
Retention payable	64,447	64,447	53,113	15,095
Withholding tax payable	41,881	40,607	30,716	10,247
Payment orders payable	13,872	13,872	10,448	489,448
Derivative liabilities (Note 5)	–	–	35,980	42,990
Miscellaneous	114,080	70,706	67,013	21,744
	₱1,867,438	₱1,688,139	₱3,561,076	₱2,565,408

Deferred revenue refers to deferral and release of loyalty points program transactions and membership fees and dues.

21. Maturity Analysis of Assets and Liabilities

The following tables show 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:

	2011					
	Consolidated			Parent Company		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Financial Assets						
Cash and other cash items	₱2,243,104	₱	₱2,243,104	₱2,190,159	₱	₱2,190,159
Due from BSP	11,315,202	–	11,315,202	11,306,441	–	11,306,441
Due from other banks	1,739,088	–	1,739,088	1,527,896	–	1,527,896
IBLR and SPURA (Note 8)	7,723,094	–	7,723,094	7,723,094	–	7,723,094
Financial assets at FVTPL (Note 9)	5,831,623	–	5,831,623	5,831,623	–	5,831,623
AFS investments (Note 9)	–	–	–	–	–	–
Investments at FVTOCI (Note 9)	–	77,244	77,244	–	77,244	77,244
Investment securities at amortized cost (Note 9)	–	11,946,992	11,946,992	–	11,946,992	11,946,992
Loans and receivables - gross (Note 10)	32,595,177	20,842,957	53,438,134	32,588,121	20,842,956	53,431,077
Total	61,447,288	32,867,193	94,314,481	61,167,334	32,867,192	94,034,526
Nonfinancial Assets						
Investment in subsidiary (Note 7)	–	–	–	–	158,548	158,548
Property and equipment (Note 11)	–	1,947,717	1,947,717	–	1,733,954	1,733,954
Investment properties (Note 12)	–	1,085,154	1,085,154	–	866,102	866,102
Deferred tax assets (Note 24)	–	927,929	927,929	–	1,115,549	1,115,549
Goodwill and other intangible assets (Note 13)	–	2,436,179	2,436,179	–	1,427,512	1,427,512
Other assets (Note 14)	548,358	98,116	646,474	518,772	98,116	616,888
	548,358	6,495,095	7,043,453	518,772	5,399,781	5,918,553
	61,995,646	39,362,288	101,357,934	61,686,106	38,266,973	99,953,079
Allowances for impairment and credit losses on loans and receivable (Note 15)	–	–	(3,110,043)	–	–	(3,110,043)
Unearned discounts (Note 10)	–	–	(2,241,292)	–	–	(2,241,292)
	₱61,995,646	₱39,362,288	₱96,006,599	₱61,686,106	₱38,266,973	₱94,601,744

	Consolidated			Parent Company		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Financial Liabilities						
Deposit liabilities	₱62,973,177	₱13,696,358	₱76,669,535	₱61,893,346	₱13,696,357	₱75,589,703
Bills and acceptances payable (Note 17)	2,163,188	–	2,163,188	2,160,822	–	2,160,822
Cashiers' checks and demand drafts payable	452,569	–	452,569	452,569	–	452,569
Subordinated debt (Note 19)	–	2,861,282	2,861,282	–	2,750,000	2,750,000
Accrued interest, taxes and other expenses (Note 18)	315,352	–	315,352	296,375	–	296,375
Other liabilities (Note 20)	690,452	–	690,452	529,248	–	529,248
	66,594,738	16,557,640	83,152,378	65,332,360	16,446,357	81,778,717
Nonfinancial liabilities						
Income tax liability	15,696	–	15,696	14,511		14,511
Accrued interest, taxes and other expenses (Note 18)	437,406	–	437,406	437,406	–	437,406
Other liabilities (Note 20)	1,176,986	–	1,176,986	1,158,891	–	1,158,891
	1,630,088	–	1,630,088	1,610,808	–	1,610,808
	₱68,224,826	₱16,557,640	₱84,782,466	₱66,943,168	₱16,446,357	₱83,389,525

	2010			2009		
	Parent Company			Parent Company		
	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 (Note 8)	2,598,621	–	2,598,621	8,933,100	–	8,933,100
Financial assets at FVTPL (Note 9)	4,598,479	–	4,598,479	1,487,102	–	1,487,102
AFS investments (Note 9)	1,525,896	14,492,525	16,018,421	533,632	14,490,926	15,024,558
Loans and receivables - gross (Note 10)	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 (Note 11)	–	1,266,429	1,266,429	–	961,305	961,305
Investment properties (Note 12)	–	844,341	844,341	–	817,191	817,191
Deferred tax assets (Note 24)	–	1,272,973	1,272,973	–	1,082,290	1,082,290
Goodwill and other intangible assets (Note 13)	–	1,378,330	1,378,330	–	1,327,155	1,327,155
Other assets (Note 14)	529,767	96,336	626,103	901,138	178,558	1,079,696
	529,767	4,858,409	5,388,176	901,138	4,366,499	5,267,637
	51,194,760	37,530,436	88,725,196	46,353,659	33,239,940	79,593,599
Allowances for impairment and credit losses on loans and receivables (Note 15)	–	–	(3,480,474)	–	–	(3,272,772)
Unearned discounts (Note 10)	–	–	(1,487,976)	–	–	(1,318,497)
	₱51,194,760	₱37,530,436	₱83,756,746	₱46,353,659	₱33,239,940	₱75,002,330

	2010			2009		
	Parent Company			Parent Company		
	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 and acceptances payable (Note 17)	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 19)	–	2,750,000	2,750,000	–	1,250,000	1,250,000
Accrued interest, taxes and other expenses (Note 18)	274,435	–	274,435	197,442	–	197,442
Other liabilities (Note 20)	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 expenses (Note 18)	479,029	–	479,029	285,182	–	285,182
Other liabilities (Note 20)	2,942,214	–	2,942,214	1,354,571	–	1,354,571
	3,421,243	–	3,421,243	1,639,753		1,639,753
	₱66,966,528	₱7,031,326	₱73,997,854	₱44,812,365	₱22,050,403	₱66,862,768

22. Equity

Capital Management

The Parent Company actively manages its capital to comply with regulatory requirements. The primary objective of which is to ensure that the Parent Company, 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 Parent Company 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 Parent Company's compliance with regulatory requirements and ratios is based on the amount of the '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 Parent Company 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 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 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 compliance with regulatory requirements and ratios is based on the amount of the Parent Company'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 2011, 2010 and 2009, the Parent Company has complied with the 10.00% BSP required capital adequacy ratio.

The capital-to-risk assets ratio of the Group and the Parent Company as reported to the BSP as of December 31, 2011, 2010 and 2009 are shown in the table below (amounts in millions):

	Consolidated		Parent Company					
	2011		2011		2010		2009	
	Actual	Required	Actual	Required	Actual	Required	Actual	Required
Tier 1 capital	₱10,856		₱10,917		₱9,323		₱7,746	
Tier 2 capital	3,468		3,327		3,288		1,619	
Gross qualifying capital	14,324		14,244		12,611		9,365	
Less required deductions	2,338		3,266		1,997		2,033	
Total qualifying capital	11,986	₱2,400	10,978	₱2,400	10,614	₱2,400	7,332	₱2,400
Risk weighted assets	75,829		72,599		66,504		53,702	
Tier 1 capital ratio	11.23%		10.54%		11.02%		10.60%	
Total capital ratio	15.81%	10.00%	15.12%	10.00%	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 Parent Company have been incorporated to the Parent Company's ICAAP to comply with the requirements of the BSP. While the Parent Company 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, 2011, 2010 and 2009.

Capital Stock

Capital stock consist of:

	2011	2010	2009
Preferred stock - ₱10.00 par value convertible, nonvoting shares			
Authorized, issued and outstanding - 300,000,000 shares	₱3,000,000	₱3,000,000	₱3,000,000
Common stock - ₱10.00 par value			
Authorized - 500,000,000 shares			
Issued and outstanding - 387,352,810 shares	3,873,528	3,873,528	3,873,528
	₱6,873,528	₱6,873,528	₱6,873,528

On June 5, 2009, the SEC approved the Parent Company's amended Articles of Incorporation which contains the increase in authorized capital stock through the issuance of ₱3.00 billion Preferred 'A' shares of stock (300,000,000 shares at ₱10.00 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 Parent Company 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 Parent Company subject to existing regulations of the BSP applicable to declaration of dividends on preferred shares. The BOD of the Parent Company 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 Parent Company amounting to ₱1.20 billion and ₱0.80 billion, respectively. Also, on December 23, 2009, FDC and FDC Forex infused additional cash amounting to ₱0.60 billion and ₱0.40 billion, respectively. Preferred shares amounting to ₱1.80 billion and ₱1.20 billion were issued to FDC and FDC Forex Corporation, respectively covering the total amount of capital infused during the year. FDC and FDC Forex hold 60.00% and 40.00% ownership of the Parent Company, respectively.

Dividends

On May 27, 2010, the Parent Company declared cash dividends on its preferred stock amounting to ₱67.50 million or ₱0.225 per share payable to stockholders of record as of May 27, 2010. The cash dividend was approved by the BSP on August 9, 2010.

The Parent Company declared and paid the following cash dividends on its preferred stock:

Class	Date of declaration	Date of record	Date of BSP approval	Date of payment	Per share	Total amount
Preferred	August 27, 2010	August 27, 2010	February 14, 2011	February 16, 2011	₱0.225	₱67,500,000
Preferred	November 25, 2010	November 25, 2010	February 14, 2011	February 16, 2011	0.225	67,500,000
Preferred	February 24, 2011	February 24, 2011	April 27, 2011	May 2, 2011	0.225	67,500,000
Preferred	May 26, 2011	May 26, 2011	July 22, 2011	July 25, 2011	0.225	67,500,000
Preferred	August 25, 2011	August 25, 2011	October 3, 2011	October 4, 2011	0.225	67,500,000
						₱337,500,000

In addition, the Parent Company declared the following dividends in 2011 which were not recognized as a liability as of December 31, 2011:

Class	Date of declaration	Date of record	Date of BSP approval	Date of payment	Per share	Total amount
Preferred	November 24, 2011	November 24, 2011	January 10, 2012	January 18, 2012	₱0.225	₱67,500,000
Common	December 15, 2011	November 30, 2011	January 30, 2012	February 10, 2012	2.582	1,000,000,000
						₱1,067,500,000

Consequently, these were approved by the BSP (see Note 31).

23. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Recovery on charged-off assets	₱111,382	₱111,382	₱111,742	₱
Rental income	2,841	2,841	2,598	2,593
Dividend income	1,047	1,047	1,066	190
Others	50,778	31,143	31,561	168,603
	₱166,048	₱146,413	₱146,967	₱171,386

Miscellaneous expenses consist of:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Advertising	₱320,898	₱320,572	₱213,177	₱195,784
Service charges, fees and commissions	258,217	257,967	226,437	162,686
Security, messengerial and janitorial services	188,428	188,178	161,841	140,693
Brokerage fees	135,327	135,278	151,666	31,387
Insurance	156,190	156,123	126,737	97,000
Postage, telephone, cables and telegram	118,049	116,044	133,295	148,535
Technological fees	106,446	106,239	98,560	141,629
Power, light and water	78,572	76,166	70,870	57,844
Stationery and supplies	62,422	62,345	70,419	73,613
Repairs and maintenance	46,373	46,321	46,668	46,607
Transportation and travel	111,444	108,979	109,492	121,894
Management and other professional fees	31,594	29,682	22,400	75,879
Entertainment, amusement and recreation	28,900	28,770	26,305	29,826
Supervision fees	24,348	23,810	28,710	22,036
Litigation expenses	13,907	13,884	34,459	47,723
Write off of capitalized software	1,542	–	812	4,532
Others	117,937	115,728	114,598	139,248
	₱1,800,594	₱1,786,086	₱1,636,446	₱1,536,916

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

24. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its subsidiary 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 statements 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:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Current:				
Final tax	₱154,481	₱153,779	₱111,548	₱186,729
Minimum corporate income tax	68,445	68,383	–	–
Regular corporate income tax	–	–	47,974	81,844
	222,926	222,162	159,522	268,573
Deferred	157,424	157,424	(190,683)	(220,516)
	₱380,350	₱379,586	(₱31,161)	₱48,057

The components of the Group's and the Parent Company's net deferred tax assets follow:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Deferred tax asset on:				
Allowance for impairment and credit losses	₱1,010,448	₱1,010,448	₱1,156,562	₱1,135,611
MCIT	68,383	68,383	–	911
Accrued expenses	71,994	71,994	68,333	9,350
Accumulated depreciation of assets foreclosed or dacioned	57,405	57,405	51,166	47,597
NOLCO	18,200	18,200		
Unamortized past service cost	7,859	7,859	8,924	5,969
Unrealized foreign exchange loss (gain)	(200)	(200)	98,066	(19,723)
	1,234,089	1,234,089	1,383,051	1,179,715
Deferred tax liability on:				
Branch licenses acquired from business combination	187,620	–	–	–
Gains on asset foreclosure and dacion transaction	69,321	69,321	67,740	58,605
Excess of fair value over carrying value of net assets acquired from business combination	43,477	43,477	33,557	25,906
Net retirement plan assets	5,742	5,742	8,781	12,914
	306,160	118,540	110,078	97,425
Net deferred tax assets	₱927,929	₱1,115,549	₱1,272,973	₱1,082,290

The movements in NOLCO and MCIT follows:

	Consolidated	Parent Company		
	2011	2011	2010	2009
NOLCO				
At beginning of year	₱	₱	₱	₱506,801
Addition	60,667	60,667	–	–
Used	–	–	–	506,801
At end of year	₱60,667	₱60,667	₱	₱

	Consolidated	Parent Company		
	2011	2011	2010	2009
MCIT				
At beginning of year	₱	₱	₱33,914	₱74,401
Addition	68,383	68,383	–	–
Used	–	–	33,914	32,408
Expired	–	–	–	8,079
At end of year	₱68,383	₱68,383	₱	₱33,914

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

	Consolidated	Parent Company		
	2011	2011	2010	2009
Statutory income tax	₱633,853	₱635,123	₱533,850	₱200,914
Additions to (reductions from) income taxes resulting from the tax effects of:				
Nondeductible expenses	139,234	137,455	77,489	83,960
FCDU income	(97,998)	(97,998)	(363,240)	(161,065)
Non taxable and tax- exempt income	(204,984)	(204,984)	(172,329)	(19,975)
Interest income subjected to final tax net of tax paid	(89,755)	(90,010)	(73,928)	(60,954)
Change in unrecognized deferred tax assets	–	–	(33,003)	(28,506)
Effect of expired MCIT	–	–	–	33,683
Effective income tax	₱380,350	₱379,586	(₱31,161)	₱48,057

25. Retirement Plan

The Parent Company 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 Group and Parent Company under the Plan are shown below:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Discount rate				
At January 1	7.36%	7.36%	10.87%	15.84%
At December 31	5.88%	5.88%	7.36%	10.87%
Expected return on plan assets	6.80%	6.80%	8.00%	8.00%
Future salary increase rate	7.00%	7.00%	5.00%	5.00%
Average remaining working life	23	23	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:

	Consolidated	Parent Company		
	2011	2011	2010	2009
As of January 1	₱196,203	₱196,203	₱153,750	₱26,756
Past service cost	–	–	30,910	–
Current service cost	48,748	48,509	25,556	6,999
Interest cost	14,591	14,441	11,935	4,238
Benefits paid	(24,778)	(24,778)	(9,675)	(31,716)
Actuarial (gain) loss	200,654	200,654	(16,273)	32,964
Present value of defined benefit obligation assumed from business combination	5,881	–	–	114,509
	₱441,299	₱435,029	₱196,203	₱153,750

In 2010, the Parent Company 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 ₱30.91 million.

Changes in fair value of plan assets are as follows:

	Consolidated	Parent Company		
	2011	2011	2010	2009
As of January 1	₱236,647	₱236,647	₱177,220	₱64,456
Contributions	39,613	39,613	38,958	31,704
Expected return	13,238	13,205	14,178	3,223
Actuarial gains on plan assets	13,598	13,598	15,966	1,582
Benefits paid	(24,778)	(24,778)	(9,675)	(31,716)
Plan assets acquired from business combination	1,245	–	–	107,971
	₱279,563	₱278,285	₱236,647	₱177,220

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

	Consolidated	Parent Company		
	2011	2011	2010	2009
Debt instruments	75.73%	75.76%	75.42%	81.05%
Equity instruments	10.61%	10.65%	16.07%	13.18%
Other assets	13.66%	13.59%	8.51%	5.77%
	100.00%	100.00%	100.00%	100.00%

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

	Consolidated	Parent Company		
	2011	2011	2010	2009
Fair value of plan assets	₱279,563	₱278,285	₱236,647	₱177,220
Present value of funded obligation	441,299	435,029	196,203	153,750
Net plan asset (liability)	(161,736)	(156,744)	40,444	23,470
Unrecognized actuarial (gain) loss	164,136	175,883	(11,173)	21,066
Asset ceiling adjustment	–	–	–	(1,490)
	₱2,400	₱19,139	₱29,271	₱43,046

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

	Consolidated	Parent Company		
	2011	2011	2010	2009
Past service cost	₱	₱	₱30,910	₱
Current service cost	48,748	48,509	25,556	6,999
Interest cost	14,591	14,441	11,935	4,238
Expected return on plan assets	(13,238)	(13,205)	(14,178)	(3,223)
Recognized actuarial gain	–	–	–	(176)
Asset ceiling adjustment	–	–	(1,490)	1,490
Expense recognized during the year	₱50,101	₱49,745	₱52,733	₱9,328

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

	Consolidated	Parent Company				
	2011	2011	2010	2009	2008	2007
Fair value of plan assets	₱279,563	₱278,285	₱236,647	₱177,220	₱64,456	₱37,605
Present value of defined benefit obligation	441,299	435,029	196,203	153,750	26,755	30,733
Net plan asset	(₱161,736)	(₱156,744)	₱40,444	₱23,470	₱37,701	₱6,872
Experience adjustments on plan liabilities	(64)	(64)	17,973	(7,728)	4,839	5,736
Experience adjustments on plan assets	13,598	13,598	22,997	(1,787)	1,053	(1,620)

The Parent Company's planned contribution for 2012 is ₱103.28 million.

26. Leases

The Group 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. For the period ended December 31, 2011, the total rentals of the Group charged to operations amounted to ₱291.05 million. Total rentals charged to operations by the Parent Company amounted to ₱282.62 million in 2011, ₱273.79 million in 2010 and ₱237.79 million in 2009.

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

	Consolidated	Parent Company		
	2011	2011	2010	2009
Within one year	₱204,490	₱189,278	₱111,015	₱105,768
After one year but not more than five years	616,014	583,048	247,307	171,514
More than five years	600,860	589,611	280,738	52,574
	₱1,421,364	₱1,361,937	₱639,060	₱329,856

27. Related Party Transactions

In the ordinary course of business, the Group 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 Group 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 each of the Parent Company and Subsidiary, 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 Parent Company.

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. Further, BSP issued Circular No. 464 dated January 4, 2005 clarifying the definition of DOSRI accounts.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular and new DOSRI loans, and other credit accommodations granted under said circular of the Parent Company.

	Consolidated	Parent Company		
	2011	2011	2010	2009
Total outstanding DOSRI accounts	₱1,102,394	₱2,102,394	₱1,220,106	₱171,990
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423	0.01%	0.01%	0.20%	0.02%
Percent of DOSRI accounts granted under BSP Circular No. 423	1.88%	3.53%	1.28%	0.46%
Percent of DOSRI accounts to total loans	1.89%	3.54%	2.92%	0.50%
Percent of unsecured DOSRI accounts to total DOSRI accounts	29.11%	62.83%	29.02%	19.08%
Percent of past due DOSRI loans to total DOSRI loans	0.00%	0.00%	0.62%	6.74%

The subsidiary has no outstanding DOSRI transactions in 2011.

The following table provides the outstanding balance of transactions, which have been entered into with related parties:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Loans and receivables				
FDC	₱976,292	₱976,292	₱800,000	₱
FLI	9,050	9,050	9,050	14,375
Filarchipelago Hospitality, Inc.(FHI)	1,056	1,056	–	–
GBI	–	1,000,000	–	–
Hocheng Philippines Corporation	–	–	–	115,141
Pacific Sugar Holdings Corporation (PSHC)	–	–	–	14,188
	₱986,398	₱1,986,398	₱809,050	₱143,704

Under the existing policies of the Group, these loans are made on substantially the same terms as loans granted to other individuals and business of comparable risks.

The Parent Company is affiliated with FHI and PSHC, both controlled by the same parent, FDC. FDC owns 60% of FHI, and 100% of PSHC.

Loans and receivables are granted to related parties for the latter's working capital. Of the total consolidated and parent company loans and receivables from related parties as of December 31, 2011, 70% and 35% are fully secured by real estate and chattel mortgage, respectively. The Group and the Parent Company have not recognized an allowance for probable losses on loans and receivables from related parties. As of December 31, 2011 and 2010, the secured portion of the loan from FDC amounted to ₱682.00 million.

Deposit liabilities include deposits of related parties amounting to ₱2.47 billion, ₱0.35 billion and ₱0.42 billion as of December 31, 2011, 2010 and 2009.

The income and expenses with respect to transactions with related parties follow:

	Consolidated	Parent Company		
	2011	2011	2010	2009
Interest income from loans and receivables	₱12,446	₱28,279	₱12,975	₱209
Interest expense on deposit liabilities	10,118	10,118	983	331

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

	Consolidated	Parent Company		
	2011	2011	2010	2009
Compensation and short-term benefits	₱171,883	₱169,683	₱87,967	₱46,016
Directors' fees	8,006	8,006	5,102	3,005
	₱179,889	₱177,689	₱93,069	₱49,021

28. Trust Operations

Securities and other properties held by the Parent Company 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 Parent Company. The combined trust and managed funds operated by the Trust Department of the Parent Company amounted to ₱8.86 billion,₱10.06 billion and ₱8.56 billion as of December 31, 2011, 2010 and 2009, respectively.

Government securities with a total face value of ₱131.04 million, ₱94.32 million and ₱125.00 million as of December 31, 2011, 2010 and 2009, respectively, are deposited with the BSP in compliance with current banking regulations related to the Parent Company's trust functions. These government securities are recorded as part of investment securities at amortized cost as of December 31, 2011 and AFS investments as of December 31, 2010 and 2009.

In accordance with BSP regulations, 10.00% of the profits realized by the Parent Company 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 Parent Company's authorized capital stock.

The Parent Company's income from its trust operations amounted to ₱31.10 million, ₱45.02 million and ₱69.96 million in 2011, 2010 and 2009, respectively.

29. Commitments and Contingent Liabilities

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

The Group 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 Group's financial statements.

The following is a summary of commitments and contingencies of the Parent Company at their peso-equivalent contractual amounts arising from off-balance sheet items:

	2011	2010	2009
Forward exchange sold	₱15,119,147	₱25,123,630	₱18,137,177
Spot exchange sold	9,325,935	4,378,553	2,630,896
Trust department accounts (Note 28)	8,857,411	10,058,308	8,562,559
Unused commercial letters of credit	612,741	561,099	523,812
Outstanding guarantees	568,910	92,686	181,115
Inward bills for collection	88,054	36,044	57,825
Outward bills for collection	47,814	7,729	22,451
Late deposits/payments received	3,620	31,557	26,920
Items held for safekeeping	455	4,748	4,725
Unsold traveler's check	26	430	752
Others	21	21,367	23,022

30. Financial Performance

Earnings per share amounts were computed as follows:

		Consolidated	Parent Company	
		2011	2010	2009
a.	Net income attributable to equity holders of the Parent Company	₱1,732,953	₱1,810,660	₱621,658
b.	Dividends declared on convertible preferred shares	(270,000)	(202,500)	-
c.	Net income attributable to common shareholders of the Parent Company	1,462,953	1,608,160	621,658
d.	Weighted average number of outstanding common shares (Note 22)	387,353	387,353	387,353
e.	Weighted average number of convertible preferred shares (Note 22)	300,000	300,000	125,000
f.	Total weighted average number of outstanding common and convertible preferred shares	687,353	687,353	512,353
g.	Basic EPS (c/d)	₱3.78	₱4.15	₱1.60
h.	Diluted EPS (a/f)	₱2.52	₱2.63	₱1.21

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated		Parent Company	
	2011	2011	2010	2009
Return on average equity	17.00%	17.11%	19.80%	10.80%
Return on average assets	2.02%	2.09%	2.34%	0.99%
Net interest margin on average earnings assets	6.60%	6.56%	6.45%	6.92%

31. Events Subsequent to Reporting Period

Amendment of Articles of Incorporation and By-Laws, Increase in Capital Stock and Waiver of Pre-emptive Rights
At the special meeting held on January 6, 2012, the stockholders and the board of directors of the Parent Company approved the increase in the Parent Company's authorized capital stock from ₱8.00 billion to ₱20.00 billion consisting of 1.50 billion common shares and 500.00 million preferred shares both with par value of ₱10.00, the waiver of preemptive rights of the shareholders and the amendment of articles of incorporation and by-laws.

The preferred shares shall have the following features:
a. Full or partial issuance allowed as may be determined by the BOD
b. Non-voting
c. Non-convertible
d. Entitled to receive cash dividends at an annual dividend rate to be fixed by the BOD prior to the date of issue
e. Non-cumulative

f. Perpetual
g. Call option on the part of the Parent Company starting on the 10th year anniversary from the time of first issue date

On the same date, the stockholders and BOD also accepted the application of the holders of 300.00 million preferred shares of the Parent Company for conversion to common shares effective January 6, 2012.

On January 20, 2012, the Parent Company filed its application for the amendment of the articles of incorporation and by-laws and the increase in authorized capital stock to the BSP and SEC. As of date, the respective approval by the BSP and SEC is yet to be received by the Parent Company.

Capital Infusion and Dividends Declaration
On January 10, 2012, the BSP has approved the quarterly cash dividends declaration of 9% on the preferred shares amounting to ₱67.5 million (see Note 22).

On January 19, 2012, the Parent Company received cash from its shareholder, FDC, amounting to ₱2.00 billion as a deposit for future stock subscription.

On January 30, 2012, the BSP approved the ₱1.00 billion cash dividend declared on December 15, 2011 to its common shareholders and was subsequently paid on February 10, 2012. On the same date, the Parent Company received cash from FDC amounting to ₱1.00 billion as a deposit for future stock subscription.

Initial Public Offering
On January 6, 2012, the stockholders and BOD authorized the Parent Company to offer to the public twenty to thirty percent of its outstanding capital stock, the exact percentage and other details to be determined by the Board at a later date, through an initial public offering (IPO).

Subsequently, the Parent Company filed its application for listing with the Philippine Stock Exchange and Registration Statement with the SEC on January 27, 2012 and January 23, 2012, respectively.

Acquisition of Finman Rural Bank, Inc. and GBI Merger Plan
On January 26, 2012, the BOD approved to purchase up to 100% shares of Finman Rural Bank, Inc. (FRBI) for ₱41.00 million. On February 9, 2012, the Parent Company and FRBI signed a Memorandum of Agreement to acquire up to 100% of the outstanding shares of FRBI, subject to the approval by the BSP and the Monetary Board.

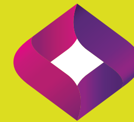
The Parent Company, through its letter to BSP dated February 14, 2012, requested for approval of the following:

- For the Parent Company to purchase up to 100% of FRBI
- Approval in principle to merge GBI into the Parent Company subject to the submission of the Plan of Merger

Executive and Employee Stock Option Plan
On January 6, 2012, the stockholders and BOD approved the establishment of an executive stock option plan (ESOP) for the directors and officers of the Group and an employee stock acquisition plan (ESAP) for the other employees of the Group. The Group shall set aside for subscription in the future by eligible employees under the ESOP and ESAP common shares of stock equivalent to three percent of the outstanding common shares after the Group's IPO.

Vision

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



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