2 0 1 2 A N N U A L R E P O R T

eastwest

Your dream Our focus

It's our leap year

Our Theme

For EastWest Bank, 2012 was more than a leap year – it was the year the Bank made a lot of things happen, not just for growth's sake but more importantly, for its customers.

EastWest aggressively opened more than a hundred stores and reached more locations nationwide. It became a publicly-listed bank and gained international recognition for its financial strength, risk management and governance practices, among other things. The Bank also offered new ways of banking with convenience through its credit, debit and prepaid card products. Amidst these developments, the Bank intends to gain, more importantly, the trust and confidence of more stakeholders.

Even as it has grown by leaps and bounds from where it started 18 years ago as a small commercial bank, EastWest will continue to be driven with big aspirations to ultimately become a "world-class bank anchored on service excellence." It will always walk consciously towards this goal and continue to leap to more successes. There is no turning back.

About EastWest Bank

East West Banking Corporation (EastWest Bank) is a subsidiary of the Filinvest Development Corporation (FDC), one of the country's premier conglomerates, with business interests in real estate, banking, sugar, hospitality/tourism and power generation.

Through the years, EastWest Bank has successfully capitalized on the financial strength and synergy of the business organizations under the Filinvest Group.

It obtained a commercial banking license from the Bangko Sentral ng Pilipinas on July 6, 1994. Over the span of 18 years, EastWest Bank has managed to emerge as one of the country's fastest-growing banks.
In May 2012, it entered a milestone when it became a publicly-listed bank through an initial public offering of over 245.3 million shares at a price of P18.50 apiece, raising around P4.8 billion to fund its expansion program in the next three years.

In August 2012, it also secured regulatory approvals for its license upgrade to universal banking status.

The bank also expanded its network by 123 stores (formerly called "branches") in 2012, raising the total to 245 from 122 in the previous year. To make banking more accessible and convenient, EastWest launched its mobile ATM and also boosted its ATM network presence to 261 (as of Dec. 2012).

In November 2012, EastWest Bank began offering P5 billion worth of Long-Term Negotiable Certificates of Time Deposit, which will mature in five years. In November, it was listed on the Morgan Stanley Capital International (MSCI) Global Small-Cap Index, which measures the equity performance of small capitalized stocks in developed and emerging markets.

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

It continues to develop innovative products and services and alternative delivery channels to address the evolving needs of its clients. Its ultimate goal is to become a "world-class bank anchored on service excellence".

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Message from the Chairman

RIGHT ON TARGET

2012 was a pivotal year for EastWest Bank as our strategic plans began to take shape and produced bigger results. We widened our footprint nationwide, strengthened our organization, made our operations more efficient and ultimately, deepened customer relationships.

"We see more opportunities arising in the domestic front and we are ready to seize them, true to our resilience and customer-oriented, go-getter spirit."

There is no denying that we, at EastWest Bank, aspire for market leadership. In 2012, we took a big leap to fundamentally change our position in the marketplace. The success of our initial public offering (IPO) and our aggressiveness in opening more than a hundred stores give us the opportunity, not only to serve more customers nationwide, but also to create more value for them.

We continue to look at our business as more than just banking. By reaching out to more people to meet their financial needs, delighting them with our brand of service and enabling them to prosper and grow through our entrepreneurial spirit, we can say we have done our part in building our nation.

This is why the theme of our 2012 annual report is "It's Our Leap Year." This speaks, not only of the continued confidence and the right-on-target execution of the growth plans of the Bank, but also of the inclusive growth that we enjoy with our customers. As such, EastWest Bank shares its success and aspirations with the nation.

2012 leaps

Our remarkable growth reflects the unwavering confidence in the Bank, in particular, and on the Philippine economy, in general. Against the backdrop of an anemic global economy in 2012, the Philippines recorded its fastest economic expansion in a non-election year since 1988. The 6.6% real GDP growth was by far the fastest growth rate in the ASEAN and the second in Asia.

The government's strong leadership focus on good governance, a much-improved fiscal situation, solid external liquidity position, a stable currency and benign inflation have prompted international credit rating agencies to continue raising the country's credit rating despite the global slowdown. All these will provide the strong foundation for the country to achieve investment grade status.

Financial markets also took notice of our economy's remarkable performance and promising outlook, as reflected in the series of record highs of the Philippine Stock Exchange index. Within this favorable business environment and record-low interest rates, Philippine companies have also posted significant growth and improved performance.

Money sent home by overseas-based Filipinos continued to fuel the consumption of many Filipino households and drive the growth in retail, real estate, tourism and other sectors, in turn, helping boost economic growth.

Remittances breached projections and hit an all-time high of US$21.4 billion in 2012, as global demand for Filipino workers remained robust despite the general weakness in the global economy.

Remittances from the business process outsourcing industry also continued to sustain our gains despite the slowdown in outsourced jobs from developed economies.

Leaping further

At EastWest Bank, we believe that a solid strategy works, both in good and difficult times. We will relentlessly pursue our geographic expansion to bring more "underserved" areas to our fold, as we remain active in delivering a wide range of innovative products and financial solutions to our customers, and harnessing our team of motivated employees.

The Board of Directors of EastWest Bank is confident that this strategy will continue to safeguard the potential of our business. The effects of the global crisis will most likely still linger in 2013, presenting specific challenges in the different parts of the world.

At the same time, we see more opportunities arising in the domestic front and we are ready and motivated to seize them, true to our resilience and customer-oriented, go-getter spirit that so accurately describes EastWest Bank's overall approach. With the strong dedication of our management team and employees and the proper execution of our plans, we will successfully realize our ambition to become a formidable player in the banking industry.

To EastWest Bank's steadfast investors, clients and employees of our growing organization, you have my deepest thanks. I am confident that our succeeding years will be even more remarkable.

JONATHAN T. GOTIANUN
Chairman

President's Report

Dear stockholders, customers, partners, and colleagues,

In 2012, your Bank leaped. We listed in the Philippine Stock Exchange, doubled our branch stores to 245, expanded our organization 33% to 3,700, crossed our first Php100-billion asset mark to end at Php121.4 billion, 26% more than in 2011. We even moved to our new corporate offices in Bonifacio Global City in Taguig.

"Our consumer lending business remains a key differentiator. In 2012, the Bank's consumer portfolio grew 40%, one of the fastest in the industry."

Before we go into the operating details, let us review what your Board of Directors had set out to do. Your Bank is a universal bank that will have as its flagships consumer finance and retail banking. To succeed, it has to have some measure of operational efficiency, a healthy attitude towards customer service, and sound governance practices. And of course, these will only work if there is an organization of men and women of kindred spirits.

Ours is not really a complex business model. This model though requires, among others, that EastWest Bank gain economies of scale. And this was the central story in 2012.

The year marked our most significant execution to scale up. In a lot of ways, it changed EastWest Bank. Though the numbers are still fledgling, your Bank now has the critical components to become a much bigger and more relevant banking player.

Significant 2012 Developments

- We are on track to have 350 branch stores by early 2014. When we are done putting these stores up, EastWest Bank will have the 5th largest in the richest trading areas in Metro Manila. Unless, of course, some other banks find a way to secure restricted licenses before licensing is fully liberalized by mid-2014. We now have the breadth and depth of a bank that is truly national in scale. While the stores are still far from reaching their full potential, we now have a competitive average cost of deposits. This is a significant reason our net interest margin was at an industry-leading 7% in 2012.

- Our consumer lending business remains a key differentiator. In 2012, our consumer portfolio grew 40%, one of the fastest in the industry. We still have the largest proportion of consumer portfolio than any other commercial bank. And while EastWest Bank is only the 15th largest bank in the country, it is the 6th largest in terms of credit cards receivables and auto finance portfolio. Our personal loans and mortgage businesses are gaining traction. This has proven providential in this time of positive economic prospects. It has allowed your Bank to mitigate the relentless pressure on spreads as interest rates continue to go down and competition becomes more intense. This is the main reason our 7% net interest margin was double the industry average.

- We are unabashedly conservative in lending. But we love to lend to the right borrowers and we need loans to deploy the deposits from the much bigger store network. To expand, we increased our market coverage. We almost tripled the average number of our corporate loan officers from the previous year. The result was a 54% increase in our corporate loan portfolio to P34.6 billion. This allowed us to serve our customers' financing requirements, particularly the middle markets, which remain to be our primary target market for deposits and loans.

- We have a competitive financial markets operation that significantly contributes to finance our rather aggressive expansion. In 2012, we earned P1.5 billion in fixed income and foreign exchange trading. While we do not plan to be heavily reliant on fixed income and currency trading, we are not beyond taking advantage of market opportunities. Consumer finance and retail banking are the anchors of the Bank's future. However, we will still engage in financial markets trading and selected wholesale banking activities.

- We added 411 new colleagues. Our total workforce is now 3,700. This is 33% more than the previous year. Most of our new colleagues are manning the new stores and expanded corporate and consumer lending units. With this number and P121.4 billion in assets, it is clear that our organization could do a lot more.

Expansion Reflects on Revenues

While still far from its potential, the expansion program resulted in a significant growth in assets and revenues. Total assets increased by 26% to P121.4 billion. Total revenues went up by 34% to P9.8 billion. This made your Bank one of the fastest growing in the industry in terms of resources and revenues.

The P25.4 billion increase in assets was driven by the P23.1 billion increases in loans. This 48% growth in loan levels to P71.2 billion accounted for the P1.2 billion or 24% increase in Net Interest Income (NII) that amounted to Php6.1 billion in 2012. This compares favorably with the single-digit average percentage increase of most competitor banks.

Your Bank has also started to reflect the deposit cost structure of much bigger banks. While deposits grew by 19% to P91.2 billion, total interest cost on deposits actually went down by P53.2 million. This was mostly due to the 51% increase in low-cost funds, as high-cost funds declined by 6%. And we remained very liquid, lending practically the whole year-round in the interbank market.

More branch stores and bigger loan portfolios also meant more customers. More customers meant more service charges, fees, and commissions, which went up 21% to P1.9 billion.

The Expansion Lag: Cost Outstrips Revenues

The 2012 results turned out as expected. Returns dipped as the cost of expansion outstripped revenue gains. Net profits grew by a modest 5% to P1.8 billion, representing an ROE and ROA of 11.9% and 1.9%, respectively. This was significantly lower than the ROE of 17.0% and ROA of 2.0% in 2011. We underperformed our competitive benchmark (the bigger universal banks listed in the PSE) which registered an average 14% and 1.9% ROE and ROA, respectively. The lower returns were partly due to the expanded equity from the IPO that we still need to leverage.

Total operating costs before asset impairment went up 40% to P6.3 billion, mostly due to the store expansion. Manpower, infrastructure, and business development costs have to be spent immediately. On the other hand, it takes time for a store to be profitable, but we think it's fine, at least for now. We are planting the seeds for a more stable and profitable future. And we have to invest and pay the price to be relevant.

Credit costs went up by P798.9 million or 109% to P1.5 billion. This was partly due to 2011 being lower than usual as credit costs in 2010 was accelerated. But more than this, it was the result of the higher-than-average expansion of the consumer loan portfolio. We believe this is timely while the economy is booming even if it meant higher short-term credit losses.

We are building the revenue base. Cards receivables increased by P3.3 billion, a 26% increase, one of highest growth among major credit card issuers.

Our Urgent Tasks

We have committed the resources on this audacious expansion and transformation program. We do not intend to turn back. And there are still lots of work to be done.

First, we have to continue building the infrastructure for growth. We still have 100 branch stores to go. We need to work on the implementation of our new Core Banking Solution due to go live in 2014. We are upgrading our critical IT infrastructure.

Second, we have to steepen our profit curve. We have to accelerate the branch stores' business generation. We need to expand our corporate banking portfolio even as we maintain our ideological fidelity to conservative credit granting. We have to build on our consumer lending and financial markets trading strengths. In sum, we have to keep the business development momentum going.

Third, we need to improve on control and governance. This is critical as we now have much bigger operations that call for improved approaches. We have learned that controlling a smaller operation is not the same as controlling an expanded operation. We are in the midst of enlarging our Internal Audit unit and had invited onboard seasoned senior audit executives. We have also enhanced risk control processes and expanded risk control units.

External Challenges

We are in very interesting times. Amid the internal work that we need to attend to, we also have to contend with a fast-changing banking environment. Interest rates are at historical lows and it does not appear this will change anytime soon. Not with the low-inflation environment all over the world. This means lower spreads, which are compelling all banks to make up for lost revenues. The result is stiffer competition that further put downward pressure on spreads.

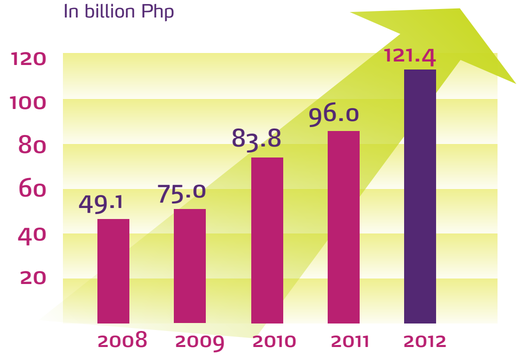
Another Leap Year

While we try to understand our current market environment and face our realities, we are confident that we can pull off our expansion program. We have the momentum. Our people are in high spirits. We are improving our employer brand. And that helps a lot as we need more talents to feed the expansion. We cannot over emphasize enough the importance of people.

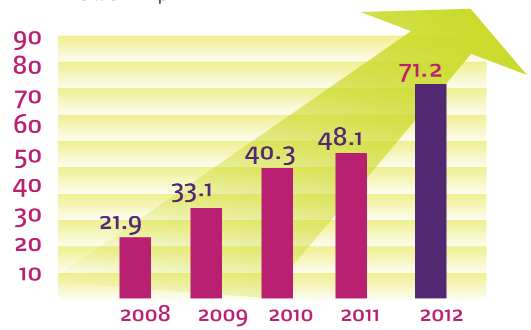
We expect to grow our total resources and increase our profits by at least 25% in 2013. With the continued patronage of our customers, the trust of our shareholders, the hard work of our colleagues, and the support of all our other stakeholders we believe we will continue leaping this year and the years ahead.

ANTONIO C. MONCUPA, JR.
President and Chief Executive Officer

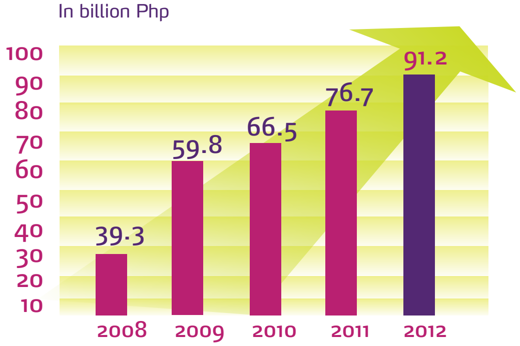
TOTAL RESOURCES
In billion Php



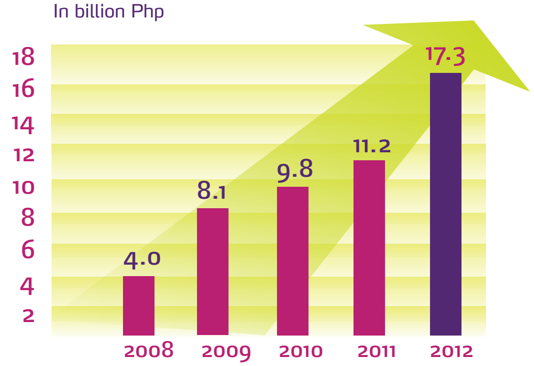
TOTAL LOANS-Net
In billion Php



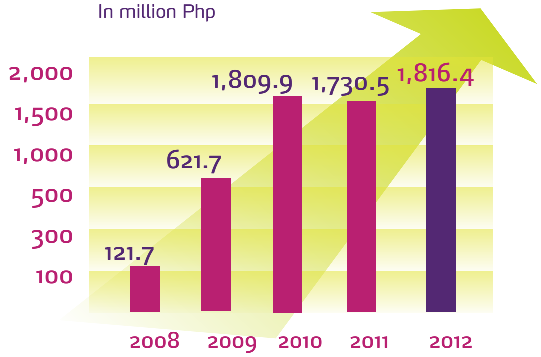
TOTAL DEPOSITS
In billion Php



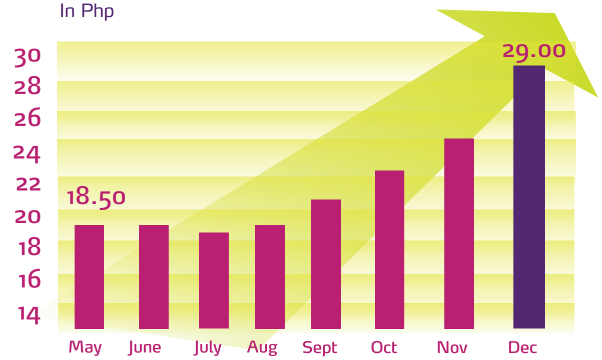
TOTAL CAPITAL
In billion Php



NET INCOME
In million Php



EW SHARE PRICE MOVEMENT
In Php



Financial Highlights

EastWest sustained its strong growth momentum in 2012 when it earned a net income of P1.8 billion, 5% higher than P1.7 billion in 2011. This translated to an 11.9% return- on-equity and 1.9% return-on-assets.

Also in 2012, EastWest breached the P100 Billion asset mark when it registered Total Assets of P121.4 Billion, a 26% jump versus 2011 total.

Meanwhile, Total deposits in 2012 rose by 19% to P91.2 billion as against the P76.7 Billion in 2011, mainly due to low-cost funds from the Bank's expanded store network. EastWest, in 2012, posted an industry feat when it opened more than a hundred stores to double its network.

The Bank's Total Loans (Net) grew by 48% to P71.2 billion as compared to the year-ago total of P48.1 billion mainly as a result of the Bank's expansion of both its consumer and corporate lending units.

Moreover, Total Capital leapt by 54% to end 2012 at P17.3 Billion versus 2011's P11.2 billion. EastWest's Capital Adequacy Ratio (CAR) stood at 17.4%, well above the minimum 10% set by the Bangko Sentral ng Pilipinas.

Since the Bank's listing during the second quarter of the year, its share price continued to climb, ending the year at P29.00 per share.

These positive results bear out 2012 to be a year of great leaps for EastWest Bank.

A year of remarkable feats

2012 was a leap year, not only based on the Gregorian calendar, but also for many reasons. It was the year the Philippines leapfrogged to join the extraordinary league of the world's 10 fastest-growing economies.

Thanks largely to strong consumer spending that led to more robust corporate earnings, the nation once known as the "Sick Man of Asia" now has enough economic muscle to buck the external headwinds that have shaken the more export-dependent economies in 2012. The financial markets have been on an adrenaline rush, even soaring to record highs, since the country started reaping the dividends from higher infrastructure spending, reduced corruption, stable interest rates and a benign inflation, and a spate of credit rating upgrades that brought us closer to becoming an investment-grade economy.

As one of the fastest-emerging players in the field, EastWest quickly sprung into action and seized the opportunities from this unfolding economic miracle. In 2012, the Bank masterfully launched a series of market initiatives that focused on meeting the banking needs, as well as enhancing the wealth of its customers.

Store Banking

One of the milestones that made 2012 the banner year for EastWest was its aggressive store expansion. EastWest opened a total of 123 stores (formerly called branches) to bring its nationwide network to 245 by the end of 2012.

Solidifying its reputation as the fastest-growing Philippine bank, EastWest was setting up customer footprints at the rate of two stores per week, as it continued to invest in rebranding its physical delivery channels to provide its customers with superior and differentiated banking experience.

The Bank also extended its reach to bring its innovative and market-driven product suite across the country. All its products – from the traditional deposit products to consumer loan products, treasury and trust products, and Emerging Market business loans – are available in its "stores".

The Bank's branches are now called "stores" because these satisfy the financial needs of its customers with a complete line of products. EastWest's stores now serve as one-stop-shops for the convenience of customers.

In step with its aggressive store expansion, the Bank also launched the EastWest Prepaid card, which provides customers the convenience of cashless payments. The EastWest Prepaid Card requires no initial deposit nor maintaining balance. It is accepted by all Visa-affiliated establishments worldwide.

EastWest launched the Revolving Credit Facility to provide business owners with a dependable credit line and help them manage their finances using a checking account as mode of availment.

In 2012, the Bank also introduced new cash management products such as the deposit management system and motorized check and cash pickup services. Another pioneering initiative is the Mobile ATM, which allows customers in high-traffic events to access funds.

From 2013 to early 2014, EastWest plans to sustain its store banking growth by opening 105 additional stores in more locations. Also in the pipeline are new cash management products tailor-fit to the financial needs of particular sectors and industries such as schools, hospitals, business process outsourcing, remittance, real estate and utilities. Customers will also gain easy access to these cash management products on-the-go as the Bank enhances its Internet banking facility and mobile banking.

123

New stores opened in 2012

EastWest Bank shifted from a "Branch" to a "Store" to convey the one-stop-shop concept that sell a complete line of products to customers.

Operational Highlights

Consumer Lending

As the economic conditions augured well for the country in 2012, the Bank continued to fortify its position in the consumer segment. It rolled out various marketing programs and expanded its acquisition channels to push further its consumer products which all posted significant growth in 2012 vis-à-vis the industry.

The Bank will continue to focus in this profitable segment in 2013.

Auto Loans

EastWest Auto Loans had a stellar year in 2012 as the total loan portfolio grew by 36% compared to the previous year. As per records of the Chamber of Automotive Manufacturers of the Philippines, Inc., the auto industry grew by 11% from year-ago levels.

EastWest was able to maintain its industry ranking of sixth place in 2012. This can be attributed to its relentless marketing drive, fast approval time, sustained good relations with auto dealers and manufacturers, promos with partner dealers, sponsorships of motor shows and continued support of its network of stores.

In 2013, EastWest will sustain its gains by creating more exciting promos for dealers and clients, intensifying acquisition and cross-selling efforts, and introducing more system enhancements to further improve turnaround time.

Mortgage Loans

With the record expansion of its store network, EastWest was able to reach more first-time homebuyers, renovators and businesses who are expanding their offices.

EastWest's Mortgage Loan portfolio expanded by 58% in 2012 as compared to 2011. This enabled the Bank to outpace the residential mortgage loan segment of the industry, with a growth rate of 20% according to BSP. Mortgage Loan business accounted for 17% of EastWest's total consumer loans portfolio.

Behind these big numbers was the combination of passion and strategy. EastWest diversified its acquisition channels from stores to include the big real estate developers and brokers. The bank also launched several marketing campaigns using a popular celebrity endorser.

In anticipation of a growing economic pie that will drive more Filipinos to pursue their dream homes, EastWest's Mortgage Lending group will continue to increase its market share and outpace the industry. The Bank will cast its nets wider to capture other channels to further increase market penetration.

Personal Loans

After a soft launch in 2011, EastWest has aggressively pushed its Personal Loan product in 2012 which allowed it to breach the billion-peso mark. The rapid growth was made possible by attractive marketing campaigns and the expansion of sales channels. This includes the launch of an industry-first Payment Holiday with free gadget promo, where borrowers were not only provided a two-month payment reprieve but were given free gadgets as well.

As EastWest pursues its aspiration towards making it as one of the top Personal Loan providers in the country, it will continue to create market differentiation by launching programs that will empower borrowers to choose their preferred benefits. EastWest also plans to further build market awareness through brand-building campaigns.

Credit Cards

2012 is so far the best year for EastWest Credit Cards, which ranked a close sixth in the industry in terms of account receivables, making it one of the breakthrough performers in local banking. EastWest Credit Cards neared the one-million cards mark while its total receivables rose by 26% versus 2011 figures. In addition, full-year billings were higher by 36% compared to 2011. These rates exceeded the industry's average growth rates in receivables and billings of 10% and 6%, respectively.

58%

Increase in Mortgage Loans

EastWest Bank outpaced the mortgage loan segment of the industry which posted an average growth of 15% in 2012.

Operational Highlights

EastWest also reinforced its leadership with the addition of the EastWest EveryDay MasterCard, which gives cardholders up to 5% cash rebate on essential spending for supermarket, gas and drugstore purchases.

Fueling this phenomenal growth were the various marketing efforts the Bank implemented in 2012, each designed to meet specific customer segment needs with the aim to provide more value and greater financial flexibility to cardholders.

As EastWest leaps further into becoming a strong consumer bank, it will continue to introduce new products and innovations to cater to the unserved and underserved markets. It will seek to diversify into new channels and optimize existing ones. All these aim to help the Bank's credit card business to be among the top players in the industry in the next three years.

Corporate Banking

The country's growing economic strength came to the fore in 2012 as Philippine companies sought new opportunities to build and expand their businesses through capital-raising. More commercial and corporate customers turned to EastWest to seize the opportunities spawned by rising consumer and business loan demand. This led to an expansion in EastWest's corporate banking business, which prompted the Bank to form another Corporate Banking Group to attain major targets for institutional loan bookings.

While only a year old into the strategy, this strategic move started paying dividends for the Bank's corporate banking customers in 2012. EastWest was able to penetrate the country's different geographic locations and successfully booked several major deals even as competition for loan accounts became more feverish.

Clients were not only able to obtain the financing they need to expand their businesses; they also enjoyed dedicated financial services to which they otherwise would not have had access.

The Bank also obtained an accreditation from the LGU Guarantee Corporation (LGUGC) that allows it to serve the needs of local government units, traditionally the territory of state-owned banks.

All these efforts resulted in a 54% increase in its Corporate Banking portfolio in 2012 versus 2011.

As it gains more confidence and strengthens its reputation as a leading bank in the middle-market segment, EastWest will continue to capitalize on the efficiency and depth of its corporate banking solutions.

Treasury

With the global market volatility at the beginning of 2012 as Greece defaulted on its debts, the eurozone entered into another period of economic slump and the US economy fell into sluggishness. This translated into a windfall of opportunities for EastWest's treasury business. Believing that the Philippines is now a relatively high-yielding safe haven due to its newfound economic dynamism, government securities and US-dollar denominated debt saw their yields sharply drop.

EastWest was able to capitalize on these market moves and contributed P1.5 billion in combined foreign exchange and fixed income trading profits in 2012, representing a 153% rise from 2011 levels.

On the funding side, Treasury issued P1.5 billion of Long-Term Negotiable Certificate of Deposits (LTNCD) to the public. The Bank has an approval to raise a total of P5.0 billion for its LTNCD and expects to complete the issuance in 2013. The Bank also increased its access to wholesale funding, taking advantage of very low rates and accessing the very liquid global markets.

In 2013, EastWest will continue to expand its balance sheet and funding requirements and view the prevailing low interest rate environment as funding opportunities that can be maximized. The Bank will also pursue the diversification of assets so it can have alternative sources of income.

153%

Increase in foreign exchange and fixed income trading profits from 2011 levels

Operational Highlights

Support Initiatives

From the systems that IT develops and manages, to the people the Bank hires and trains to run its business, EastWest's commercial success hinges on the ability of its teams to work with one another for the benefit of customers and shareholders.

In 2012, EastWest made progress in several key initiatives that enhance significantly the way it operates.

Information Technology

EastWest's IT Group focused on delivering standardized technology and infrastructure for the Bank, as well as on building efficient and flexible systems to support its differentiation strategy.

By delivering a common operating platform, the Bank will be able to create better scale, lower costs, facilitate faster time to market, provide consistent service and strengthen risk controls. EastWest has also embarked on a two-year upgrade program of its IT technical infrastructure to support its aggressive growth.

A significant milestone in 2012 was when the Bank began upgrading its core banking system to the latest and most powerful version that can support the operations of up to 500 stores.

EastWest's IT Group also managed the technology requirements of the Bank's 123 new stores which opened in different periods throughout the year. This allowed each store to be online and ready for service on its opening day. In addition, IT also made possible the seamless installation of 132 ATMs nationwide.

IT also played a vital role in EastWest's smooth transfer to its new corporate headquarters to The Beaufort in Bonifacio Global City, ensuring that there is minimal impact on operations during the transfer of the different business units. It also supported the rollout of new products that enabled customers to benefit from new technology-driven innovations.

As EastWest makes the big leap ahead, IT will continue to ensure that customers experience seamless banking through the effective use of technology.

Human Resources

In 2012, EastWest continued to build a strong pipeline of talent at all levels in the organization.

To sustain the Bank's stellar growth, its Human Resources division has undergone dramatic transformations to make policies and processes more streamlined, systems more automated, and employees more equipped to handle the growing demand for skills through new courses.

The Bank's total workforce grew by 33% to 3,700 in 2012 from a year ago, as employees were added to support store expansion.

Apart from using online channels for external job postings, partnering with top and targeted universities for campus job fairs and holding recruitment camps, HR also employed fresh strategies to support the recruitment process. These strategies include further promoting employee referral promos, improving collaterals to attract talents, and rebuilding the Careers portal with latest job openings suited for external talents. HR was also able to establish service level agreements with other support groups to have an Onboarding process in place.

EastWest also implemented a new learning management system for skills training, even as it made most of its courses more accessible to employees by offering them online. While it harnesses the power of new technology to support learning, the Bank continues to use traditional methods such as collaborative and instructor-led training for an appropriate blend of learning experiences.

Job evaluation activity has been completed and is up for implementation in 2013. This will now provide a better understanding of how the Bank assesses promotions, movements and appointments within the organization. This will also be a good venue for career advancement and succession planning.

132

Number of ATMs seamlessly installed nationwide in 2012

Competition for talent in the industry will continue to be intense as the economic pie grows bigger and more jobs are created. The Bank believes that it has the people, tools and programs in place to attract new talent and help existing employees uncover their potential as they move ahead with EastWest Bank.

Marketing and Communications

Complementing EastWest's accomplishments in 2012 was its ceaseless effort to let its customers experience in all touchpoints EastWest's brand essence: making good things happen. The Bank's product development, service standard setting and integrated communication efforts were imbued with the EastWest brand. The Bank also continued to enforce a tight policy to ensure that all communication materials are aligned with EastWest's brand standards.

The Bank's brand awareness drive was supported by its unique Dream Big Win Big Raffle Promotion, which covered all EastWest products. Through this unique promo, EastWest customers were able to realize their aspirations such as owning a condominium unit at The Beaufort, two Mercedes Benz sedans, over a million peso in cash prizes and the latest gadgets.

EastWest also sought for opportunities to bring delightful experiences to its customers even beyond banking. In 2012, the Bank sponsored the world-renowned musical play The King & I.

In line with its drive to promote financial literacy and in keeping with its entrepreneurial and go-getting spirit, EastWest co-sponsored in 2012 a Fun Run together with the Bank Marketing Association of the Philippines (BMAP) to raise funds for the Bangko Sentral ng Pilipinas' Banking on your Future-Kiddie Account Program. Its objective was to promote savings consciousness among schoolchildren.

In 2012, EastWest made available for its customers the Visa Personal Payments Facility which allows anyone from abroad to remit money straight to beneficiaries' EastWest Debit Card deposit account. This service is now available in India, Singapore, Russia, Middle East, Africa, Malaysia, China and Taiwan.

Also in mid-2012, the Bank launched its Passbook with Debit Card Savings Account. This gives customers the security and peace of mind of having their transactions documented in a passbook as they enjoy the advantages and convenience of modern banking with the EastWest Debit Card.

The impressive growth and performance of EastWest Debit Card garnered for the Bank the 2011 Most Outstanding New VISA Debit Issuer — a feat considering the product was launched only during the last quarter of 2011.

In 2013, EastWest will continue to harness the power of integrated marketing communications to propel the brand to making good things happen for its customers.

A RACE TO RAISE SAVINGS CONSCIOUSNESS. EastWest, together with the Bank Marketing Association of the Philippines (BMAP), staged a Fun Run for the Bangko Sentral ng Pilipinas (BSP)' Banking on your Future-Kiddie Account Program which promotes savings consciousness among schoolchildren. Photo shows BSP Gov. Amado Tetangco, Jr. (2nd from left) with EastWest and BMAP officers, along with the Fun Run winners.

Customer Service

With the robust activity of EastWest last year, the Customer Service team has gone to great lengths to ensure that the Bank is able to keep up with the growing market base as well as the evolving customer needs and expectations.

In 2012, Customer Service Division (CSD) posted milestones on all three fronts: Contact Center, Service Quality, and Telemarketing.

CSD was able to attend to its customers' needs across all customer touchpoints of telephone calls, SMS and e-mail, surpassing the service level industry benchmark of 85%.

Service Quality (SQ) was also officially organized, paving the way for the consolidation of all external complaints and enabling the Bank to have an encompassing view of the customer pain points. Around the same time, SQ introduced the Basic Customer Service Standards to develop a consistent and customer-centric delivery of service across all channels.

Ultimately, these established standards will contribute in building client loyalty through excellent customer service.

In 2013, Customer Service will play a pivotal role as EastWest actively pursues its vision to be a world-class bank anchored on service excellence for its chosen markets.

Stronger Risk Management Culture

The story behind the unprecedented growth of EastWest Bank in 2012 is best encapsulated in its risk philosophy.

Essentially, every entity in the Bank exists to provide value for EastWest stakeholders, namely its customers, business partners, employees, and shareholders. This value is maximized by carefully balancing risks and returns, and the corresponding optimal deployment of the Bank's capital.

The Bank lives by five simple and yet highly effective tenets in risk management:
- Align risk appetite with business plan and strategies.
- Have a proactive risk management approach.
- Reduce the surprises of unexpected losses.
- Identify and manage all material risks.
- Optimize the use of capital.

These tenets serve as the Bank's compass as it realizes its vision of "becoming a world-class bank anchored on service excellence for its chosen markets."

The success of the Bank could not have happened if it were not for the single course set by the Board of Directors and the unified direction that Management has given to every employee. Each and everyone is a component in the value chain that fuels the growth of the Bank.

The Bank's risk management framework aims to identify, measure, control, monitor and report the risks that may put a cog along the value chain, ensuring that negative surprises such as unexpected losses will not derail the growth momentum of the Bank. This framework is important in achieving the optimal balance of risk-taking, risk management and return on investments through the Bank's organized and integrated banking activities and processes.

Risk Structure

The Board lays down the overall governance strategy and risk appetite and Management ensures fulfillment of these governance directives. It is indispensable that each business and operating unit is capable of managing its own risks. With guidance from Risk Management, each unit is responsible for decisions regarding risk strategy, policies and controls in its respective business and operations.

Credit Risk Management

Lending being its main business, the Bank is primarily exposed to credit risk. With a diverse customer base – from large corporations to retail consumers – it is essential to deploy loss mitigation strategies such as reduction of credit exposures, refining credit standards and other actions intended to minimize economic loss to meet the changing economic environment.

Through the joint efforts of the risk-taking units and risk managers, credit exposures are identified and measured to determine the following:

- amount of exposure should there be default
- probability of default
- loss severity upon default

Control measures are then laid down to protect against adverse conditions. Such control measures include monitoring and limiting credit concentration, requiring collaterals or other credit mitigants, maintaining credit quality with the aid of risk ratings, and monitoring of loan performance via the regular impairment assessment exercise. These are reported regularly to Management.

Market Risk Management

The Bank is also exposed to the highs and lows of the financial markets through its holdings of fixed income instruments, foreign currencies, and equities. While exposure to these instruments compares less to loans, the potential impact could go high should extreme volatility in

these markets occurs. Thus, comprehensive identification and measurement of market risk has always been undertaken by the Bank with much rigor.

Since there is no single measure that can truly reflect all aspects of market risk, the Bank employs various metrics, statistical and non-statistical, including Value- and Earnings-at-Risk (VaR and EaR), price sensitivity analysis, and stress testing. Taken collectively, these measures paint the market risk exposure of the Bank, which is then controlled through a series of limits based on the Bank's risk appetite and business strategy, and the prevailing market environment.

Due to the volatile nature of the markets, it is necessary to report market risk exposure daily to Management which monitors the risk limits on a day-to-day basis. It takes the concerted efforts of Risk Management, Treasury, Management and the Board of Directors to ensure that the Bank achieves its risk objectives.

Liquidity Risk Management

It is crucial for the Bank to maintain sufficient level of liquidity, especially during periods of adverse conditions, thus, any potential inability of the Bank to adequately meet contractual and contingent liabilities must be promptly identified and measured. The Bank adopts various tools to monitor and manage liquidity, among which are:

- analysis of the timing of fund sourcing vis-a-vis fund usage (commonly called funding gaps) over periods ranging from one month to longer than 20 years;

- management of debt and capital issuances to ensure that the illiquid portion of the balance sheet may be funded by equity, long-term debt and core deposits;

- assessment of the Bank's capacity to raise incremental unsecured and secured funding.

These provide the context for the Bank's risk controls, which include meeting regulatory reserve requirements, short-term and long-term cash flow management, and planning for contingency funding. Management periodically monitors the liquidity position of the Bank and reviews the impact of strategic decisions to liquidity. Management also balances the maximum use of available funds while maintaining enough liquidity to meet obligations.

Operational Risk Management

The Board of Directors has put in place an operational risk management framework and limit structure tailored for each business, operating, and governance units of the Bank. This framework guides all units on how to manage operational risk by adopting a uniform and structured methodology of risk identification, assessment, mitigation, monitoring and reporting.

The framework is executed through everyone's concerted efforts, from top management to the individual employees in the different units of the Bank. These individuals are in the best position to identify and manage the operational risks that they come face-to-face with everyday. They measure identified risks based on registered losses in the past and quantified residual risks from self-assessment activities, and adopt control measures that would fit the Bank's operating environment as well as organizational maturity. These mitigating measures include:

- Operational risk and loss event reporting and maintenance of a loss database of operational risk events categorized according to the Basel II business lines and operational risk event types.

- Risk and control self-assessment is carried out to analyze business activities and identify operational risks that could affect the achievement of business objectives.

- Key risk indicators that assist management by providing early-warning indicators of potential risk exposures and/or a potential breakdown of controls which are used to manage operational risk on an ongoing basis.

▪ Business continuity and disaster recovery planning to ensure strategic continuity of the Bank's various operations under internal and external disruptive conditions.

▪ Information risk management to preserve the confidentiality, integrity, and availability of the Bank's information assets.

To track the overall operational risk exposure of the Bank, loss incidents, actual and potential, are elevated to Management. The information allows Management to have an indication of the Bank's operations risk.

Capital Management

The capital management framework is designed to ensure that the Bank and its subsidiaries are capitalized in line with their risk profile, regulatory requirements, and economic capital level ratios as determined by the Bank's Board. The Bank's capital management initiatives are guided by the following objectives:

▪ Maintain sufficient capital resources to meet minimum regulatory capital requirements.

▪ Maintain sufficient capital resources to support growth plans and economic capital requirements hinged on risk exposures.

▪ Allocate capital to business lines to support strategic objectives, includes return optimization.

▪ Ensure adequate capital buffer on top of the minimum required level to cover for risk from potential stress events.

▪ Maintain capital in excess of minimum requirements to achieve the desired capital adequacy ratios.

To attain its capital management objectives, the Bank performs the following:

▪ Sets internal targets for capital adequacy;

▪ Manages the sensitivity of capital ratios to risks;

▪ Assesses capital adequacy and ensures compliance with regulatory requirements and Bank desired levels;

▪ Allocates capital consistent with strategic objectives;

▪ Performs stress tests, capital planning and forecasting; and

▪ Executes relevant capital management response.

The capital base of the Bank is managed to achieve an optimal balance between maintaining capital ratios for business growth and depositor confidence while providing competitive returns to shareholders. The capital management process ensures that business initiatives are well supported to promote the growth of the Bank without compromising sound governance and business practices.

It was through sound capital management that enabled the Bank to take a quantum leap in 2012. With a robust risk management strategy, EastWest is expected to move forward full steam ahead in the coming years.

Sound capital management enabled EastWest Bank to take a quantum leap in 2012.

Going beyond compliance

EastWest Bank is committed to the highest standards of corporate governance.

To realize our goal to become a "world-class bank anchored on service excellence," we believe that sound corporate practices based on fairness, accountability and transparency is essential in achieving growth and stability as well as enhancing investor confidence. The Bank aims to create and sustain value for its various stakeholders. To achieve this, the Bank's Board of Directors, senior management and employees understand that compliance with regulations and best practice standards is everybody's responsibility.

Going beyond adherence to regulatory framework, EastWest Bank fosters a culture of partnership within the organization to ensure that long-term success and performance of the Bank are achieved.

This includes EastWest Bank employees who are required to adhere to the highest standards of quality, honesty, transparency and accountability. The Bank runs a program called EthicsDirect that encourages employees to report, in good faith, to Senior Management any misconduct within their respective business units. The program protects in confidence the identity of the employee who disclosed the suspected offense within the organization.

To continually foster a culture of good corporate governance, the Employee Relations Council, composed of representatives from various units of the Bank, ensures that interests and concerns of personnel are heard and addressed.

Board of Directors

The Board of Directors conducts its functions as a full Board and through its six committees. Board-approved Corporate Governance policies are contained in the 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 Bangko Sentral ng Pilipinas Manual of Regulations for Banks. These policies are made known to every member of the EastWest Bank organization.

The Board's primary mandate is to ensure the sustainable and successful continuation of business activities by providing strategic direction to Executive management.

The Board comprises of nine Directors of whom the majority are non-executive, with the Chairman and the President and CEO as the only two Directors serving in an executive capacity.

The non-executive Directors are all independent and have diverse skills, experience and backgrounds and are, in general, free from any business relationship that could hamper their objectivity or judgment on the business and activities of the Bank. All the non-executive Directors have unrestricted access to information, documents, records and property of the Company in fulfilling their responsibilities as non-executive Directors.

Board Election and Attendance

The Board consists of six regular members and three Independent Directors. The members of the Board are elected annually by the stockholders and shall each serve a term of one year until the election and qualification of a new set of Directors. Furthermore, the Board shall elect among themselves a Chairman and a Vice-Chairman.

The Bank held a total of 16 Board meetings during the year. Of these, 12 are regular Board meetings from January to December 2012; three were Special Board Meetings on January 6, June 21 and September 6, 2012; and one was an Organizational meeting on April 26, 2012.

Board Committees

Consistent with corporate governance best practices, the Board has established Committees to assist it in discharging its responsibilities. Each Committee has a mandate outlining the authority delegated to it by the Board.

Minutes of the Committee meetings are available to all Directors and are included in the Board meeting documents.

The Chairpersons of the Committees furnish reports on the activities of their Committees at each Board meeting. Executives considered relevant for the effective execution of the mandates of such Committees attend the Committee meetings by invitation.

Board Committees

The Board has established the following Committees to assist it in carrying out its role and responsibilities:

Executive Committee

Chairman: Jonathan T. Gotianun (Chairman)
Members: Andrew L. Gotianun, Sr.,
Mercedes T. Gotianun,
Lourdes Josephine T. Gotianun Yap,
Antonio C. Moncupa, Jr.

The Committee is empowered to approve and/or implement any or all corporate acts within the competence of the Board, except those expressly reserved for the Board of Directors under provisions of the Corporation Code. The Committee also reviews and approves the 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: Paul A. Aquino (Independent Director)
Members: Jose S. Sandejas,
Atty. Benedicto M. Valerio, Jr.,
Jonathan T. Gotianun, Carlos R. Alindada

The Corporate Governance and Compliance Committee sets the corporate governance and compliance philosophy of the Bank, as well as related policies and best practices. It also oversees its compliance program and ensures that issues on this are resolved expeditiously.

The Committee is also tasked with evaluating the qualifications of individuals nominated to the Board, as well as those nominated to other positions requiring appointment by the Board. Implementing its mandates is the Compliance Division, led by the Chief Compliance Officer officially confirmed by the Bangko Sentral ng Pilipinas' Monetary Board to carry out this role.

The Committee consists of the Chairman of the Board and four Independent Directors who meet every two months.

Audit Committee
Chairman: Carlos R. Alindada (Independent Director)
Members: Jose S. Sandejas, Paul A. Aquino, Lourdes Josephine T. Gotianun Yap

The Committee provides oversight on the Bank's financial reporting and internal and external audit functions. It is responsible for setting up the Internal Audit Division and appointing the Internal Auditor and an independent external auditor who report directly to the Audit Committee. It also monitors and evaluates the adequacy and effectiveness of the Bank's internal control system through the Internal Audit Division (IAD).

As an independent unit of the Bank, the IAD functionally reports to the Audit Committee and administratively to the President and CEO and 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: Jose S. Sandejas (Independent Director)
Members: Carlos R. Alindada, Paul A. Aquino, Lourdes Josephine T. Gotianun Yap

The Committee assists the Board in managing the Bank's risk-taking activities through policy institution and oversight. As defined in the Bank's Risk Management Charter, the Committee reviews and approves principles, policies, strategies, processes and control frameworks pertaining to risk management, as well as recommends to the Board any necessary modifications or amendments to these strategies and policies.

Its functions include identification and evaluation of the Bank's risk exposures, estimating its impact to the organization and assessing the magnitude, direction and distribution of risks across the Bank, which likewise serves as one of the basis in determining the risk tolerances that it recommends to the Board for approval. Periodically, the Committee updates the Board on the overall risk exposures and the effectiveness of its risk management practices and processes.

The Committee has four members (all non-executive directors of the Board), and majority are Independent Directors. Members possess adequate knowledge and understanding of the institution's risk exposures and expertise in developing appropriate risk policies and strategies. It conducts quarterly meetings at a minimum with majority of the members required to be present. In 2012, a total of four meetings have been conducted and fully attended by Committee members. In line with the Bank's thrust for a much stronger governance and risk oversight, holding more frequent Committee meetings is being considered starting 2013.

Compensation Committee
Chairman: Lourdes Josephine T. Gotianun Yap (Director)
Members: Mercedes T. Gotianun, Jose S. Sandejas, Antonio C. Moncupa, Jr.

The Committee ensures that the Bank's compensation policies and practices are consistent with the corporate culture, strategy and the overall business environment. It evaluates and recommends to the Board incentives and other equity-based plans designed to attract and retain qualified and competent individuals.

The Committee is composed of five members, including the President and CEO and one Independent Director. It meets at least once a year and provides overall direction on the compensation and benefits strategy of the Bank.

Trust Committee
Chairman: Jonathan T. Gotianun (Chairman of the Board)
Members: Andrew L. Gotianun, Sr., Atty. Benedicto M. Valerio, Jr., Antonio C. Moncupa, Jr., Arnulfo V. de Pala (Trust Officer)

While the Board of Directors is responsible for the proper administration and management of trust and other fiduciary businesses, it may also delegate its authority through the Trust Committee.

The Committee ensures that funds and properties held in trust or in any fiduciary capacity shall be administered with the necessary skill, care, prudence and diligence.

It 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 undertakes such responsibilities as, but not limited to, the following: acceptance and closure of trust and other fiduciary accounts; initial review of assets placed under the trustee's or fiduciary custody; investment, re-investment and disposition of funds or properties; review and approval of transactions between trust and/or fiduciary accounts; and periodic review of trust and other fiduciary accounts to determine the advisability of retention or disposition of assets and 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 periodically business development initiatives such as staffing and delineation of responsibility/accountability, and proactive development and implementation of strategies to cultivate revenue streams and cost management, application and monitoring of the proper performance benchmarks.

The President, Trust Officer and three Directors comprise the Trust Committee.

ATTENDANCE
IN BOARD MEETINGS

EastWest Bank held a total of 16 Board meetings in 2012. Of the total, 12 were regular Board meetings from January to December 2012; three were special Board meetings (January 6, June 21, and September 6); and one was an organizational meeting on April 26, 2012.

Directors	Meetings Attended
Andrew L. Gotianun, Sr.	15
Jonathan T. Gotianun	15
Antonio C. Moncupa, Jr.	16
Mercedes T. Gotianun	15
Lourdes Josephine T. Gotianun Yap	14
Michael Edward T. Gotianun**	9
Paul A. Aquino*	16
Jose S. Sandejas*	16
Carlos R. Alindada*	16
Benedicto M. Valerio, Jr.***	7

**Independent Directors*
*** January to July 26, 2012*
**** July 26 to December 2012*

Board of Directors

(L-R)

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

JONATHAN T. GOTIANUN
Chairman

MERCEDES T. GOTIANUN
Director

ANDREW L. GOTIANUN, SR.
Chairman Emeritus

JOSE S. SANDEJAS
Director

PAUL A. AQUINO
Director

LOURDES JOSEPHINE T. GOTIANUN YAP
Director

CARLOS R. ALINDADA
Director

BENEDICTO M. VALERIO, JR.
Director /Corporate Secretary

Profiles of the Board of Directors

ANDREW L. GOTIANUN, SR.
Chairman Emeritus

Mr. Andrew L. Gotianun is the Chairman Emeritus of EastWest Bank. He also has the same position in Filinvest Development Corporation ("Filinvest"), the majority shareholder of the Bank. He has been serving as a director for the group of companies of Filinvest for more than five (5) years including Davao Sugar Central Corporation; Pacific Sugar Holdings, GCK Realty Inc.; and, ALG Holdings Inc. He has extensive experience in banking including management positions and membership in boards of Family Savings Bank and Insular Bank of Asia and America. Thru Filinvest Credit Corporation (1970 to 1985), he was among the pioneer in auto loans business.

JONATHAN T. GOTIANUN
Chairman

Mr. Jonathan T. Gotianun is the Chairman of EastWest Bank since 2007. Prior to his election as Chairman of the Board, he was Vice-Chairman and Director of the Bank since 1994. He is also the Chairman of the Board of Finman Rural Bank Inc., and to other corporations such as Filinvest Development Corp., Davao Sugar Central Co., Inc. and Filinvest Alabang, Inc. He was also a director of Philam Savings Bank Inc., Philam Auto Finance and Leasing, Inc., and PFL Holdings, Inc. in 2009. Mr. Jonathan Gotianun holds a degree in Commerce from the Santa Clara University in California and a Masters in Management from Northwestern University in Illinois.

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

Mr. Antonio C. Moncupa, Jr. has been the President & CEO of EastWest since January 1, 2007. Before joining EastWest, he was EVP and 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. He currently sits as Board Member and Corporate Secretary of Bankers Association of the Philippines (BAP), Chairman of the BAP Open Market Committee; as Vice Chairman of Philippine Clearing House Corporation. He was formerly a director of the Philippine Depository and Trust Corporation from 2008-2012 and Philippine Clearing House, Inc. from 2009 to 2012.

MERCEDES T. GOTIANUN
Director

Mrs. Mercedes T. Gotianun has been serving as a Director of EastWest since 1995. Concurrently, she holds Directorship in Filinvest Development Corporation since 1980 and as a chairman of the board of Pacific Sugar Holdings since 1991, Filinvest Land, Inc., and Vice-Chairman of Filinvest Alabang, Inc. since 1999. Mrs. Gotianun holds a degree in BS Pharmacy (magna cum laude) from the University of the Philippines.

LOURDES JOSEPHINE T. GOTIANUN YAP
Director

Mrs. Lourdes Josephine T. Gotianun Yap has been a Director of EastWest since August 2000. She is the President and CEO of Filinvest Land Inc. since 2012. She has been a director of Filinvest Development Corporation, Filinvest Land, Inc., Filinvest Asia Corporation, Cyberzone Properties, Inc., and The

Palms Country Club since the 90's.She is presently the Executive Vice President of Filinvest Alabang, Inc. Mrs. Gotianun Yap holds a degree in Business Management from the Ateneo de Manila University and an MBA major in Finance from the University of Chicago.

CARLOS R. ALINDADA

Director

Mr. Carlos R. Alindada has been serving as an Independent Director of EastWest since April 2002. He is also an independent director of Tanduay Holdings, Citibank Savings, Inc. since 2005 and Bahay Pari Solidaritas Fund since 2010. 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. Mr. Alindada was a former Chairman and Managing Partner of SGV & Co.,and a former Director of the National Power Corporation and a former Commissioner of the Energy Regulation Commission.

PAUL A. AQUINO

Director

Mr. Paul A. Aquino 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 also worked as the President and CEO of Green Core Geothermal, Inc. from October 2009 to 2010. 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 (HonorisCausa) by the Philippine School of Business Administration.

JOSE S. SANDEJAS

Director

Mr. Jose S. Sandejas has been serving as an Independent Director since 2002. Mr. Sandejas is formerly a Director of Asian Hospital, Inc. from 2007 to 2011, Home Credit Mutual Building and Loan Association from 2008 to 2011, Insular Investment and Trust Corporation from 2008 to 2012, Benguet Consolidated Corporation in 1979, Petron Corporation in 1998, and the Board of Investments in 1970. 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.

BENEDICTO M. VALERIO, JR.

Director /Corporate Secretary

Atty. Valerio has been the Corporate Secretary of East West Banking Corporation since 2007. He is concurrently a Director of the Bank since 2012. He is actively engaged in the practice of law and specializes in litigation and corporate work. He was the Asst. Corporate Secretary of International Exchange Bank from 2001-2006 and also served as its General Counsel from 1995 to 2006. He holds a BS Commerce degree from the De La Salle University and his Bachelor of Laws from the Ateneo de Manila University. He finished his Masters in Business Administration at the Ateneo Graduate School of Business.

Senior Management

(L-R)

ANTONIO C. MONCUPA, JR.
President & CEO

GERARDO SUSMERANO
Executive Vice President

JACQUELINE S. FERNANDEZ
Executive Vice President

RENATO K. DE BORJA, JR.
Senior Vice President

(L-R)

ERNESTO T. UY
Senior Vice President

IVY B. UY
Senior Vice President

MANUEL ANDRES D. GOSECO
Senior Vice President

CONSUELO V. DANTES
First Vice President

DAVID S. AQUINO
First Vice President

Senior Management

(L-R)

MA. BERNADETTE T. RATCLIFFE
First Vice President

VILMA A. NOCHE
First Vice President

AGERICO S. VERZOLA
First Vice President

ARLENE S. VIERNES
First Vice President

(L-R)

GRACE N. ANG
Vice President

ARNULFO V. DE PALA
Vice President

RANDALL ROGELIO A. EVANGELISTA
Vice President

JUDY GRACE D. CAPILI
Vice President

ISAGANI A. CORTES
Vice President

Senior Management

(L-R)

GERONIMO NILO G. JIMENEZ
Vice President

RENATO P. PERALTA
Vice President

GINA MARIE C. GALITA
Vice President

MA. EDWINA L. PINEDA
Vice President

(L-R)

CLARISSA MARIA A. VILLALON
Vice President

ALLAN JOHN M. TUMBAGA
Vice President

FELIPE A. IGNACIO, JR.
Senior Assistant Vice President

MARI CRIS Q. MAUHAY
Senior Assistant Vice President

List of Senior Officers

PRESIDENT AND CEO

Antonio C. Moncupa, Jr.

EXECUTIVE VICE PRESIDENTS

Jacqueline S. Fernandez
Arturo L. Kimseng
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
Consuelo V. Dantes
Elisa O. Go
Vilma A. Noche
Carlota F. Oquialda
Ma. Bernadette T. Ratcliffe
Agerico S. Verzola
Arlene S. Viernes
Alessandro L. Villaraza

VICE PRESIDENTS

Josephine Vilma A. Abad
Albert I. Alberto
Grace N. Ang
Alan E. Atienza
Doli D. Cabahug
Mary Jane D. Caliwan
Judy Grace D. Capili
Luisito M. Cornejo
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
Steve L. Lim
Jocelyn C. Legaspi
Maricel L. Madrid
Manuel L. Manalastas
Michael T. Medrero
Jocelyn T. Pavon
Renato P. Peralta
Isabel S. Pijuan
Ma. Edwina L. Pineda
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
Ferdinand E. Yap

Products and Services

DEPOSIT PRODUCTS

Peso
- Checking
- Checking with Rewards
- Savings
- Passbook + Debit Card
- Kiddie Savings
- Time Deposit
- Long Term Negotiable Certificates of Deposit

Foreign Currency
- USD Savings
- USD Time Deposit
- RMB Savings

Payment Facilities
- Debit Card
- Prepaid Card

CONSUMER LOANS

Auto Loan
- Auto Loan
- Fleet Financing

Home Loan
- Housing Loans
- Lot Loan
- Commercial Mortgage Loan
- Multi-purpose Home Loan

Personal Loan
- Personal Loan
- Salary Loan

TREASURY PRODUCTS

Foreign Exchange

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

CREDIT CARDS

EastWest Classic & Gold MasterCard/Visa
EastWest EveryDay MasterCard
EastWest Platinum MasterCard
EastWest Dolce Vita MasterCard
EastWest Practical MasterCard
Hyundai MasterCard
LausAutoGroup Visa

CORPORATE CREDIT FACILITIES

Bills Purchase Line
- Domestic Bills Purchase Line
- Foreign Bills Purchase Line

Trade Check Discounting

Working Capital Loan
- Short Term Loan
- Revolving Promissory Note Line
- Revolving Credit Facility

Inventory Financing
- Floor Stock Revolving Facility

Guarantees
- Standby Letters of Credit (SLBC)
  - Domestic SLBC
  - Foreign SLBC

Trade Finance
- Domestic Facilities
- Import Facilities
- Export Facilities

Forex Lines
Term Loans
Leasing

TRUST PRODUCTS

Trusteeship Functions
- Personal Trusts
- Institutional Trusts

Agency Functions
- Investment Management Accounts (IMA)
- Escrow
- Custodianship

Investments
- Infinity Peso Money Market Fund
- Infinity Peso Trust Maximizer
- Infinity Peso Long Term Bond
- Infinity Peso Equity Fund
- Infinity Peso Balanced Fund
- Infinity Dollar Trust Maximizer
- Infinity Dollar Long Term Bond

CASH MANAGEMENT SERVICES

Deposit Pick-up
Check Warehousing
Check Writing
Payment Services
Collection Services
Payroll Services

EMERGING MARKETS BANKING

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

OTHER SERVICES

Access Banking
- Net Access
- Mobile Access

Stores

As of May 20, 2013

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

999 Shopping Mall
3/F, Unit 10 & 3C-2, 999 Shopping Mall 2
C.M. Recto St., Tondo, Manila

A. Bonifacio - Balingasa
G/F, 2/F & 3/F, Units D to E, Winston Plaza 1 Bldg.
880 A. Bonifacio Ave., Brgy. Balingasa, Quezon City

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

Alabang - Entrata
Units G3 to G4, Entrata, Filinvest Corporate City
Alabang, Muntinlupa City
Tel: (02) 856-0685 / 519-6407 / 553-4295

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

Alabang Hills
Don Gesu Bldg., Don Jesus Blvd.
Brgy. Cupang, Muntinlupa City

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

Amorsolo - Queensway
G/F, Queensway Bldg., 118 Amorsolo St.
Legaspi Village, Makati City
Tel: (02) 511-1933 / 511-7107 / 511-7006

Annapolis
G/F, The Meriden Condominium Bldg., Unit 1A
Annapolis St., Northeast Greenhills, San Juan City
Tel: (02) 705-1517 / 705-1623

Anonas
94 Anonas St. cor. KM.6, Kamias, Quezon Cty
Tel: (02) 434-0057 to 58 / 924-3402

Ayala Avenue - Herrera
G/F, PBCom Tower, 6795 Ayala Ave.
cor. Herrera St., Makati City
Tel: (02) 830-8997 / 830-8798 / 986-9437

Ayala Avenue - MSE
Makati Stock Exchange Bldg., Ayala Triangle
Ayala Ave., Makati City
Tel: (02) 659-8020 / 659-8625 to 26

Ayala Avenue - Rufino Tower
G/F, Unit 1, Rufino Bldg., 6784 Ayala Ave.
cor. V.A. Rufino St., Makati City

Ayala Avenue - SGV 1
SGV 1 Bldg., 6760 Ayala Ave., Makati City

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

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

Bagumbayan
184-B, E. Rodriguez Ave., Bagumbayan
Libis, Quezon City
Tel: (02) 666-3693 / 911-3601 / 709-1729 to 30

Banawe- N. Roxas
42 Banawe Ave. cor. Nicanor Roxas St., Quezon City
Tel: (02) 354-5978 / 354-5024 / 354-4980

Banawe - Sct. Alcaraz
G/F, Units A to C, 740 Banawe Ave.
cor. Sct. Alcaraz St. Quezon City
Tel: (02) 354-5042 to 44

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

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

Better Living - Peru
Blk. 9 Lot 3, Doña Soledad Ave. cor. Peru St.
Betterliving Subd. Parañaque City

BF Homes - Aguirre
327 Aguirre Ave., BF Homes, Parañaque City
Tel: (02) 856-0149 / 808-7066 / 808-4963

Bicutan - East Service Road
Ground Floor, Waltermart Bicutan
East Service Rd. corner Mañalac Ave.
Brgy. San Martin de Porres, Parañaque City

Binondo
Uy Su Bin Bldg., 531 Quintin Paredes St.
Binondo, Manila
Tel: (02) 247-3615 / 247-3708 / 247-3652

Boni Avenue
Lourdes Bldg. II, 667 Boni Ave.
Brgy. PlainView, Mandaluyong City

C. Raymundo Avenue
G/FITSP Bldg., 172 C. Raymundo Ave.
Brgy. Maybunga, Pasig City
Tel: (02) 640-4206 / 640-5690 / 641-0607

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

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

City Place Square
3/F, C-P 2-3, City Place Square, Reina Regente St.
cor. Felipe II St., Binondo, Manila
Tel: (02) 621-1292 to 93

Commonwealth
272 Commonwealth Ave., Brgy. Old Balara
Quezon City

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

Cubao - Araneta Center
G/F, Philamlife Bldg., Aurora Blvd.
cor. Gen. Araneta St., Cubao, Quezon City
Tel: (02) 709-7697 / 709-7702 / 709-7709

Cubao - P. Tuazon Avenue
G/F, Prince John Condominium, 291 P. Tuazon Ave.
cor. 18th Ave., Cubao, Quezon City
Tel: (02) 913-4730 / 913-5266 / 912-1816

Del Monte
271 Del Monte Ave. cor. Biak na Bato, Quezon City
Tel: (02) 354-5042 to 44

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

Don Antonio Heights
Blk. 7 Lot 24, Holy Spirit Drive
Brgy. Holy Spirit, Don Antonio Heights, Quezon City
Tel: (02) 376-0647

E. Rodriguez Avenue
G/F, MC RILLO BLDG., 1168 E. Rodriguez Ave.
Brgy. Mariana, Quezon City
Tel: (02) 695-3519 to 21

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

EDSA - Howmart
G/F, 1264 EDSA Brgy. A Samson, Quezon City
Tel: (02) 990-9588 to 89

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

EDSA - Muñoz
Lemon Square Bldg., 1199 EDSA Muñoz
Brgy. Katipunan, Quezon City

Elcano
El Cano Bldg., 622 El Cano St., Binondo, Manila

Emerald
Unit 103, Hanston Bldg., F. Ortigas Jr. Rd.
Ortigas Center, Pasig City
Tel: (02) 477-4975 / 477-5368 / 477-5371

Emerald - Garnet
G/F, Unit 103, AIC Gold Tower Condominium
cor. Emerald & Garnet Aves., Ortigas Center
Pasig City
Tel: (02) 687-0037 to 39

Escolta
G/F, First United Bldg., 413 Escolta
cor. Banquero Sts., Manila
Tel: (02) 245-3983 to 84

Evangelista
Evangelista cor. Hen. Mojica St., Bangkal
Makati City
Tel: (02) 846-8516 / 846-9500

Fairview
72 Commonwealth Ave. cor. Camaro St.
East Fairview, Quezon City

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

Festival Mall Level 2
2/F, Festival Supermall, Filinvest Corporate City
Alabang, Muntinlupa City
Tel: (02) 850-3722 to 23 / 850-3605

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

Garnet
Unit 102, Prestige Tower, Emerald Ave.
Ortigas Center, Pasig City

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

Gil Puyat - Dian
G/F, Wisma Cyberhub Bldg.
45 Sen. Gil Puyat Ave., Makati City

Stores

As of May 20, 2013

Grace Park - 7th Ave.
G/F, Units 1 to 3, 330 Rizal Ave. Ext.
cor. 7th Ave., East Grace Park, Caloocan City

Grace Park - 8th Ave.
8th Ave. cor. J. Teodoro St., Grace Park
Caloocan City
Tel: (02) 361-7545 / 364-9576 / 364-9586 / 361-8856

Grace Park - 11th Ave.
G/F, Remcor V Bldg., Blk. 172, Lot 5
Rizal Ave. Ext., Caloocan City

Greenhills - Connecticut
G/F, Unit B, Fox Square Bldg., 53 Connecticut St.
Northeast Greenhills, San Juan City

Greenhills - North
G/F, BTTC Bldg., Ortigas Ave. cor. Roosevelt St.
Greenhills, San Juan City

Greenhills - West
G/F, ALCCO Bldg., Ortigas Ave., Greenhills-West
San Juan City
Tel: (02) 727-7629 / 721-2789 / 721-9605

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

H.V. Dela Costa
Classica Tower, 114 H.V. Dela Costa St.
Salcedo Village, Makati City

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

J.P. Rizal
805 J.P. Rizal cor. F. Zobel St.
San Miguel Village, Makati City

Jose Abad Santos - Tayuman
G/F and 2/F, Cada Bldg., 1200 Tayuman St.
cor. Jose Abad Santos Ave., Tondo, Manila

Juan Luna - Pritil
1953-1955 Juan Luna St., Tondo, Manila
Tel: (02) 230-2217 / 354-4969 / 230-2143

Julia Vargas
G/F, Unit 101, One Corporate Center
Julia Vargas Ave. cor. Meralco Ave.
Ortigas Center, Pasig City

Kalentong
908 Gen. Kalentong St., Mandaluyong City
Tel: (02) 534-0667 to 69

Kamias
10 Kamias Rd. cor. Col. Salgado St.
Brgy. West Kamias, Quezon City

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

Lagro
Blk. 6 Lot 2, Quirino Highway, Lagro
Novaliches, Quezon City

Las Piñas - Almanza
Aurora Arcade Bldg., Alabang-Zapote Rd.
Almanza Uno, Las Piñas City

Las Piñas - BF Resort
EastWest Bank Bldg., BF Resort Drive Phase IV
BF Resort Village, Las Piñas City
Tel: (02) 822-28-02 / 822-43-57 / 822-26-99

Las Piñas - Marcos Alvarez Avenue
G/F and 2/F, 575 Marcos Alvarez Ave.
Talon V, Las Piñas City

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

Legaspi - Dela Rosa
G/F, I-Care Bldg., Dela Rosa St.
cor. Legaspi Village, Makati City

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

Loyola Heights - Katipunan
Blk. 41 Lot 1, Unit 13, Elizabeth Hall Bldg.
Loyola Heights, Quezon City

Makati Avenue - Juno
Unit 2-A, W Bldg., Juno St. cor. Makati Ave.
Brgy. Bel-air, Makati City
Tel: (02) 880-0526 / 880-0529 / 552-1941

Makati Avenue - Pacific Star
G/F, High Rise, Pacific Star Bldg.
Sen. Gil Puyat Ave. cor. Makati Ave., Makati City

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

Malabon - Potrero
Units 1 to 2, Mary Grace Bldg., 142 McArthur Highway
Potrero, Malabon City
Tel: (02) 352-5490/ 352-7682 / 442-7583

Malabon - Rizal Avenue
726 Rizal Ave., Brgy. Tañong, Malabon City

Malabon - Sevilla Boulevard
376 F. Sevilla Blvd., Malabon City
Tel: (02) 283-9535 to 36 / 283-9403

Mandaluyong - Libertad
G/F, Units A to C, Dr. Aguilar Bldg.
46 D.M. Guevarra cor. Esteban Sts.
Mandaluyong City
Tel: (02) 534-5507 / 535-3091

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

Mandaluyong - Wack-Wack
G/F, GDC Bldg., 710 Shaw Blvd.
Brgy. Wack-Wack, Mandaluyong City

Marikina - Concepcion
Bayan-Bayanan Ave., Concepcion, Marikina City

Marikina - Gil Fernando Ave.
Gil Fernando Ave. cor. Estrador St.
Midtown Subd., San Roque, Marikina City
Tel: (02) 681-7143 / 681-7384

Marikina - J.P. Rizal
367 J.P. Rizal St., Sta. Elena, Marikina City

Marikina - Parang
108 JNJ Bldg., B.G. Molina st.,
Brgy. Parang, Marikina City
Tel: (02) 625-5541 / 625-6230

Masambong
L/G, Annexes B to C, Atkimson Bldg.
627 Del Monte Ave., Brgy. Masambong
Quezon City

Masangkay
1411-1413 Masangkay St., Tondo, Manila
Mayon
170 Mayon Ave., Quezon City
Tel: (02) 354-4695 / 354-4717 to 18

McKinley Hill
Unit 1 Cp-1, Commerce and Industry Plaza
McKinley Hill, Bonifacio Global City, Taguig City

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

Navotas - North Bay
G/F, Unit 2, Melandria III Bldg.
1090 Northbay Blvd. South, Navotas City
Tel: (02) 736-7592 / 736-7594

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

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

North EDSA
UG/F, Units 4 to 7, EDSA Grand Residences
EDSA cor. Corregidor St., Quezon City
Tel: (02) 660-1826 / 660-9227 / 660-1828

Novaliches - Gulod
Blk. 2 Lot 489, Brgy. Gulod, Quirino Highway
Novaliches, Quezon City
Tel: (02) 355-2630 / 355-2700 / 355-2741

Novaliches - Talipapa
Units C to G, 526 Quirino Highway, Brgy. Talipapa
Novaliches, Quezon City

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

Padre Faura
Unit D, G/F Metro square Bldg 2, MH Del Pilar St.
corner Padre Faura St., Ermita, Manila

Pasay - D. Macapagal Boulevard
8 Pres. Diosdado Macapagal Blvd., Pasay City

Pasay - Libertad
Unit 265-E, Nemar Bldg., Libertad St., Pasay City

Paseo de Magallanes
G/F, Unit 102, Tristan Plaza Bldg., San Antonio St.
Paseo de Magallanes, Makati City
Tel: (02) 478-4858

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

Paseo de Roxas - Philam Tower
8767 Ayala cor. Paseo de Roxas, Makati City

Pasig - Pasig Boulevard
Pasig Blvd. cor. Lakeview Drive
Brgy. Bagong Ilog, Pasig City
Tel: (02) 661-8785 to 86 / 661-8790

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

Pasig - Rosario
Unit 3, 1866 Ortigas Ave. Ext., Rosario, Pasig City

Pasig - Santolan
G/F, Santolan Bldg., 344 A. Rodriguez Ave.
Santolan, Pasig City

Pasig - Shaw Boulevard
27 Shaw Blvd., Pasig City
Tel: (02) 635-7311 to 12

Pasig - Valle Verde
102 E. Rodriguez Jr. Ave., Ugong, Pasig City

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

Stores

As of May 20, 2013

Pasong Tamo Extension
G/F, Dacon Bldg., 2281 Pasong Tamo Ext.
Makati City
Tel: (02) 892-2825 / 867-2756

Pioneer
Unit UG-09, Pioneer Pointe Condominium
128C Pioneer Ave., Mandaluyong City
Tel: (02) 571-2970 / 584-3392

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

Quezon Avenue - Banawe
G/F, PPSTA1 Bldg., Quezon Ave. cor. Banawe St.
Quezon City
Tel: (02) 743-0775 / 412-1681 / 743-4715

Quezon Avenue - Dr. Garcia Sr.
940 Quezon Ave., Brgy. Paligsahan
cor. Dr. Garcia St., Quezon City
Tel: (02) 709-7805 / 709-7807 to 08

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

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

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

Rada
G/F, Unit 102, La Maision Condominium Bldg.
Rada St., Legaspi Village, Makati City

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

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

Roosevelt - Sto. Niño
187 Roosevelt Ave., Brgy. Sto. Niño
San Francisco Del Monte, Quezon City

Roxas Boulevard
G/F, DENR Bldg., 1515 Roxas Blvd., Ermita, Manila
Tel: (02) 525-3605 / 526-0533 / 536-5271

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

San Juan
F. Blumentritt cor. M. Salvador Sts., San Juan City
Tel: (02) 723-8991 / 727-8522 / 725-5442

San Lorenzo Village - A. Arnaiz Avenue
The E-Hotels Makati Bldg., 906 A. Arnaiz Ave.
(formerly Pasay Rd.) San Lorenzo Village
Makati City

San Miguel Avenue
Medical Plaza Bldg., San Miguel Ave.
Ortigas, Pasig City
Tel: (02) 637-5121 / 637-5649 / 637-5251

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

Sto. Cristo
Units 107 to 108, Sto. Cristo Condominium
Sto. Cristo cor. Ilang-Ilang Sts., Binondo, Manila
Tel: (02) 247-7110 / 247-7112 / 245-3982

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

Sucat - Kabihasnan
G/F, Units 3 to 4, Perry Logistics Center Bldg.
Ninoy Aquino Ave., Brgy. San Dionisio
Parañaque City
Tel: (02) 553-5064 / 553-5400 to 01

Sucat - Kingsland
G/F and 2/F, Units 5 to 6, Kingsland Bldg.
Dr. A. Santos Ave., Sucat, Parañaque City

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

T.M. Kalaw
Annexes A-1 to A-4, Ditz Bldg.
444 T.M. Kalaw St., Ermita, Manila

Taft Avenue
Philippine Academy of Family Physicians Bldg.
2244 Taft Ave., Manila

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

Tektite
East Tower, Philippine Stock Exchange Center
Exchange Drive, Ortigas Center, Pasig City
Tel: (02) 637-4164 / 667-3211 / 637-4165

The Fort - Beaufort
The Beaufort, 5th Ave. cor. 23rd St.
Bonifacio Global City, Taguig City
Tel: (02) 478-5481 / 478-5482 to 83

The Fort - Burgos Circle
G/F, Units H to I, Crescent Park Residences
Burgos Circle cor. 2nd Ave., Bonifacio Global City
Taguig
Tel: (02) 478-5481 / 478-5482 to 83

The Fort - F1
G/F, Unit F, F1 Center Bldg., 32nd St.
cor. 5th Ave., Bonifacio Global City, Taguig City
Tel: (02) 478-3834 / 478-4326 / 478-5213

The Fort - Marajo Tower
G/F, Marajo Tower, 4th St., Fort Bonifacio
Taguig City
Tel: (02) 856-4275 / 856-2722

Timog Ave.
G/F, Timog Arcade, Timog Ave.
cor. Scout Torillo St., Quezon City
Tel: (02) 376-7886 / 622-3144

Tomas Mapua - Lope de Vega
G/F and 2/F, Valqua Bldg., 1003 Tomas Mapua
cor. Lope de Vega Sts., Sta. Cruz, Manila

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

U.N. Avenue
U.N. Ave. cor. Ma. Orosa St., Ermita, Manila
Tel: (02) 524-7753 / 524-7811

U.P. Village
65 Maginhawa St., U.P. Village, Diliman
Quezon City

Valenzuela - Dalandanan
Malanday Machinery's Commercial Bldg.
No. 212, Km. 15 Mac Arthur Highway
Brgy. Dalandanan, Valenzuela City

Valenzuela - Marulas
JLB Enterprise Bldg., McArthur Highway
Marulas, Valenzuela City
Tel: (02) 291-8961 / 445-0756 / 445-0670

Valero
G/F, Retail 1B Area, Paseo Parkview Tower
140 Valero St., Makati City
Tel: (02) 751-3007 / 751-0002 to 03

Visayas Avenue
G/F, Units B to D, 15 Visayas Ave.
Brgy. VASRA, Quezon City

West Avenue
108 West Ave. cor. West Lawin St., Quezon City
Tel: (02) 928-6880 / 928-5920 / 927-1185 / 927-1197

West Service Road
West Service Rd. cor. Sampaguita Ave.
UPS IV, Parañaque City
Tel: (02) 822-39-10 to 11

Westgate
West, Filinvest Corporate City, Alabang
Muntinlupa City
Tel: (02) 771-0810 to 16

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

LUZON

Angeles - Balibago
Saver's Mall Bldg., McArthur Highway
Balibago, Angeles City, Pampanga

Antipolo - M.L. Quezon Avenue
146 M.L. Quezon Ave. cor. F. Dimanlig St.
Antipolo City
Tel: (02) 661-9677

Antipolo - Marcos Highway
Ciannat Complex, Brgy. Mayamot
Marcos Highway, Antipolo City
Tel: (02) 682-2250 to 51

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

Bacoor - Molino
G/F, Units 101 to 103, VCENTRAL Mall, Molino Bldg.
Molino Blvd., Bacoor, Cavite City

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

Baguio City - Session Road
Unit 101, Bldg. B, Lopez Bldg., Session
cor. Assumption Rds., Baguio City
Tel: (074) 961-7936 / 961-7937

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

Bataan - Balanga
Don Manuel Banzon Ave. cor. Cuaderno St.
Dona Francisca, Balanga City, Bataan
Tel: (047) 237-0350 to 52

Bataan - Dinalupihan
Brgy. San Ramon, Dinalupihan, Bataan

Batangas - Bauan
J.P. Rizal cor. San Agustin Sts., Bauan, Batangas

Batangas - Tanauan
Brgy. Darasa, Tanauan, Batangas

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

Stores

As of May 20, 2013

Benguet - La Trinidad
Km. 5, Central Pico, La Trinidad, Benguet

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

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

Carmona
Lot 1947-B, Paseo de Carmona Compd.
Carmona, Cavite
Tel: (046) 784-1396

Cavite - Naic
cor. Daang Sabang and Ibayo Silangan Rd.
Naic, Cavite

Cavite - Tanza
Antero Soriano Ave., Daang Amaya 2, Tanza, Cavite
Tel: (046) 431-2097 / 431-2328 / 431-2378

Dagupan - A.B. Fernandez Avenue
New Star Bldg., A.B. Fernandez Ave.
Dagupan City, Pangasinan

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

Dasmariñas
Km. 31, Gen. Emilio Aguinaldo Highway
Brgy. Zone 4, Dasmariñas City, Cavite

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

Ilocos Sur - Candon
G/F, KAMSU Bldg., Brgy. San Jose
Candon City, Ilocos Sur

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

Isabela - Cauayan
Maharlika Highway, Cauayan City, Isabela
Tel: (078) 652-4578 / 652-3945 to 46

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

La Union - San Fernando City
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
Lots 712-A, B and C, 18 B. Morada Ave.
Lipa City, Batangas
Tel: (043) 784-1377 / 784-1396 / 784-1336

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

Meycauayan - Malhacan
Malhacan Tollgate, Meycauayan, Bulacan

Mindoro - Calapan
G/F, Paras Bldg., J.P. Rizal St., Brgy. San Vicente
South, Calapan, Oriental Mindoro

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

Nueva Ecija - Gapan
G/F, Units 105 to 106 & 2/F, Unit 205, TSI Bldg.
Jose Abad Santos Ave., Sto. Niño, Gapan
Nueva Ecija

Nueva Ecija - San Jose
Paulino Bldg., Brgy. Aber 1st, Maharlika Rd.
San Jose, Nueva Ecija

Nueva Vizcaya - Solano
Maharlika Rd., Poblacion, Solano, Nueva Vizcaya

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

Palawan
Brgy. Manggahan, Rizal Ave.
Puerto Princesa, Palawan

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

Pampanga - Apalit
RH7, McArthur Highway, Apalit, Pampanga

Pampanga - Guagua
Good Luck Bldg., 303 Guagua, Sta. Rita Arterial Rd.
Brgy. San Roque Guagua, Pampanga

Pangasinan - Rosales
Estrella Compd., Carmen East Rosales
McArthur Highway, Pangasinan

Plaridel - Bulacan
Lot 1071-A Daang Maharlika Road
(previously Cagayan Valley Road)
Banga First, Plaridel, Bulacan,
Tel. (02) 575-3200 local 8282

San Fernando - Dolores
Felix David Bldg., McArthur Highway
San Fernando City, Pampanga
Tel: (045) 961-7936 to 37

San Fernando - Sindalan
G/F, T and M Bldg., Brgy. Sindalan
McArthur Highway, San Fernando City, Pampanga

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

San Pedro
National Highway, San Pedro, Laguna
Tel: (049) 478-9552 to 53

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

Tarlac - Paniqui
130 M.H. Del Pilar St. cor. McArthur Highway
Paniqui, Tarlac

Taytay
Valley Fair Town Center, Ortigas Ave. Ext.
Taytay, Rizal
Tel: (02) 660-1826 / 660-1828 / 660-9227

Tuguegarao City
Brgy. 8 Poblacion, Rizal College Ave.
cor. Bonifacio and Burgos Sts., Tuguegarao City
Tel: (078) 844-6512

Urdaneta City
G/F, S&P North Mall, McArthur Highway
Nancayasan, Urdaneta City, Pangasinan
Tel: (075) 656-2838 / (075) 656-2825

Vigan
Quezon Ave., Vigan, Ilocos Sur

VISAYAS

Bacolod - Hilado
Hilado Street, Bacolod City, Negros Occidental

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

Bacolod - Mandalagan
Lopue's Mandalagan Corp. Bldg.
Brgy. Mandalagan Bacolod City
Negros Occidental

Boracay
Alexandrea Bldg., Main Rd., Brgy. Balabag
Boracay Island, Malay, Aklan

Cebu - A.C. Cortes
Carlos Perez Bldg., A.C. Cortes Ave., Ibabao
Mandaue City, Cebu

Cebu - A.S. Fortuna
AYS Bldg., A.S. Fortuna St., Banilad
Mandaue City

Cebu - Asia Town I.T. Park
G/F, Calyx Center, W. Ginonzon cor. Abad Sts.
Asia Town, I.T. Park, Cebu
Tel: (032) 236-0675 / 236-0698
(02) 236-2278

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

Cebu - Basak Pardo
South Point Place Bldg., N. Bacalso Ave.
South Rd., Basak Pardo, Cebu

Cebu - F. Gonzales
60 Quiaco Bldg., Magallanes
cor. Gonzales St., Cebu

Cebu - Fuente Osmeña
G/F, Cebu Women's Club Bldg.
Fuente Osmeña, Cebu

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

Cebu - Juan Luna
Stephen Jo Bldg., Juan Luna, Cebu

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

Cebu - M. Velez
151 M. Velez St., Guadalupe, Cebu

Cebu - Magallanes
CLC Bldg., 280 Magallanes St., Cebu

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

Cebu - Mandaue North Road
UG/F, Blocks 01 to 03, ALDO Bldg., North Rd.
Basak, Mandaue City, Cebu

Cebu - Minglanilla
La Nueva Minlanilla Center, Minglanilla, Cebu

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

Stores

Cebu - Park Mall
Alfresco 4, Units 39 to 40, Park Mall
Mandaue City, Cebu

Cebu - Talisay
Tabunok Highway, Talisay, Cebu

Dumaguete City
Don Joaquin T. Villegas Bldg., Colon St.
Dumaguete City

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

Iloilo - Jaro
Jaro Townsquare, Mandaue Foam Bldg.
Qunitin Salas, Jaro, Iloilo

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

Ormoc City
Hotel Don Felipe, Annex Bldg., Bonifacio St.
Ormoc City, Leyte

Tacloban City
141 Justice Romualdez St., Brgy. 15
Tacloban City
Tel: (053) 321-9955 / 523-6556

Tagbilaran City
CPG Ave., 2nd District, Tagbilaran City, Bohol

MINDANAO

Bukidnon - Valencia
Tamay Lang, Parklane, G. Laviña Ave., Poblacion
Valencia City, Bukidnon

Butuan City
G/F, Deofavente Bldg., Gov. J. Rosales Ave.
Brgy. Imadejas, Butuan City, Agusan Del Norte
Tel: (085) 225-9620 to 21

Cagayan de Oro City - Cogon
De Oro Construction Supply, Inc. Bldg.
Don Sergio Osmena St. cor. Limketkai Drive
Cagayan de Oro City, Misamis Oriental

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

Cotabato
31 Quezon Ave., Poblacion 5, Cotabato City
Tel: (064) 421-5963 / 421-5960 to 61

Davao - Bajada
J.P. Laurel Ave. cor. Iñigo St., Davao City

Davao - Buhangin
G/F, D3G Bldg., Buhangin, Davao City

Davao - C.M. Recto
P&E Bldg., Poblacion, Brgy. 035
C.M. Recto Ave., Davao City

Davao - J.P. Laurel
J.P. Laurel Ave., Davao City

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

Davao - Matina
Block 3 Lot 6, Subdivision Plan, PSD-25515
McArthur Highway, Matina, Davao City
Tel: (082) 299-0893 / 297-4183 / 299-1206

Davao - Panabo City
Quezon St., Sto. Niño, Panabo City
Davao del Norte

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

Davao -Toril
Saavedra St., Toril, Davao City
Tel: (082) 234-0687

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, Lanao del Norte
Tel: (063) 222-1680 to 82

Koronadal City
G/F, RCA Bldg., Gen. Santos Drive, Koronadal City
South Cotabato

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

Pagadian City
BMD Estate Bldg., F. Pajeres cor. Sanson St.
Pagadian City, Zamboanga del Sur

Surigao City
G/F, EGC Bldg., Rizal St., Washington, Surigao City
Surigao del Norte

Tagum City
G/F, Unit GA07-09, Gaisano Grand Arcade
Apokan St. cor. Lapu-Lapu Ext., Tagum City, Davao
Tel: (084) 234-0687 / 234-0726

Zamboanga City - Canelar
Printex Bldg., M.D. Jaldon St., Canelar
Zamboanga City

Zamboanga City - N.S. Valderrosa
N.S. Valderrosa cor. Corcuerra Sts., Zamboanga City
Tel: (062) 992-6571 to 73

> Audited Financial Statements <

Statement of Management's Responsibility

The management of EAST WEST BANKING CORPORATION (the Bank) is responsible for the preparation and fair presentation of the consolidated and parent company financial statements for the year ended December 31, 2012, 2011 and 2010, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated and parent company 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 consolidated and parent company financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors appointed by the BOD, has examined the consolidated and parent company 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

ANTONIO C. MONCUPA, JR.
President and Chief Executive Officer

RENATO K. DE BORJA, JR.
Chief Financial Officer

MANUEL ANDRES D. GOSECO
Treasurer

Signed this 28th day of February, 2013.

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PAGE NO.: 11
BOOK NO.: VII
SERIES OF: 2013

ATTY LOURDES ABILLAR-ONA
NOTARY PUBLIC FOR MAKATI CITY
Appointment No. M-178 until December 31, 2013
2264 Pasong Tamo Extension, Makati City
Roll No. 38397 / IBP Lifetime No. 02701
PTR No. 3676483, January 10, 2013, Makati City

Independent Auditor's Report

The Stockholders and the Board of Directors
East West Banking Corporation
The Beaufort
5th Avenue corner 23rd Street
Fort Bonifacio Global City
Taguig City

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of East West Banking Corporation and Subsidiaries ("the Group"), which comprise the statements of financial position as at December 31, 2012 and 2011 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years 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, 2012 and 2011 and January 1, 2011, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2012, 2011 and 2010, 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, 2012 and 2011 and its financial performance and its cash flows for the years then ended, and the financial position of the Parent Company as at December 31, 2012 and 2011 and January 1, 2011, and its financial performance and its cash flows for the years ended December 31, 2012, 2011 and 2010 in accordance with Philippine Financial Reporting Standards.

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

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

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. 08-001998-62-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669658, January 2, 2013, Makati City

February 28, 2013

Statements of Financial Position

	Consolidated (Note 2)		Parent Company		
	As of December 31				As of January 1,
	2012	2011 (As restated - Note 2)	2012	2011 (As restated - Note 2)	2011 (As restated - Note 2)
	(Amounts in Thousands)				
ASSETS					
Cash and Other Cash Items (Note 16)	**₱3,235,161**	₱2,243,104	**₱3,180,497**	₱2,190,159	₱2,079,324
Due from Bangko Sentral ng Pilipinas (Notes 15 and 16)	**21,855,275**	11,315,202	**21,789,239**	11,306,441	11,556,018
Due from Other Banks	**1,637,917**	1,739,088	**1,524,815**	1,527,896	1,253,412
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 8)	**582,648**	7,723,094	**582,648**	7,723,094	2,598,621
Financial Assets at Fair Value Through Profit or Loss (Note 9)	**4,260,325**	5,831,623	**4,260,325**	5,831,623	11,050,923
Financial Assets at Fair Value Through Other Comprehensive Income (Note 9)	**9,982**	77,244	**9,982**	77,244	77,334
Investment Securities at Amortized Cost (Note 9)	**9,620,505**	11,946,992	**9,620,095**	11,946,992	9,501,249
Loans and Receivables (Notes 10, 15 and 27)	**71,192,741**	48,086,799	**69,469,950**	48,079,742	40,264,295
Investments in Subsidiaries (Note 1)	–	–	**241,072**	158,548	–
Property and Equipment (Note 11)	**2,740,689**	1,947,717	**2,572,532**	1,733,954	1,266,429
Investment Properties (Notes 12 and 15)	**937,648**	1,085,154	**730,335**	866,102	844,341
Deferred Tax Assets (Note 24)	**973,137**	928,158	**1,146,176**	1,115,778	1,269,621
Goodwill and Other Intangible Assets (Notes 7 and 13)	**3,399,851**	2,436,179	**2,370,542**	1,427,512	1,378,330
Other Assets (Note 14 and 15)	**957,461**	645,711	**933,105**	616,125	637,277
TOTAL ASSETS	**₱121,403,340**	₱96,006,065	**₱118,431,313**	₱94,601,210	₱83,777,174
LIABILITIES AND EQUITY					
LIABILITIES					
Deposit Liabilities (Notes 16 and 27)					
Demand	**₱34,129,088**	₱21,787,662	**₱34,271,229**	₱21,714,348	₱19,278,484
Savings	**16,238,463**	11,476,140	**13,285,003**	10,469,622	8,536,541
Time	**39,317,476**	41,779,095	**39,438,612**	41,779,095	36,988,869
Long-term negotiable certificates of deposits	**1,523,778**	1,626,638	**1,523,778**	1,626,638	1,668,801
	91,208,805	76,669,535	**88,518,622**	75,589,703	66,472,695
Bills and Acceptances Payable (Note 17)	**5,571,387**	2,163,188	**5,571,387**	2,160,822	161,141
Accrued Taxes, Interest and Other Expenses (Note 18)	**956,063**	752,758	**780,511**	733,781	753,464
Cashier's Checks and Demand Draft Payable	**714,398**	452,569	**714,398**	452,569	299,478
Subordinated Debt (Note 19)	**2,863,751**	2,861,282	**2,750,000**	2,750,000	2,750,000
Income Tax Payable	**28,113**	15,696	**27,766**	14,511	–
Other Liabilities (Note 20)	**2,739,943**	1,867,438	**2,728,626**	1,688,139	3,561,076
TOTAL LIABILITIES	**₱104,082,460**	₱84,782,466	**₱101,091,310**	₱83,389,525	₱73,997,854

(Forward)

	Consolidated (Note 2)		Parent Company		
	As of December 31				As of January 1,
	2012	2011 (As restated - Note 2)	2012	2011 (As restated - Note 2)	2011 (As restated - Note 2)
	(Amounts in Thousands)				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY					
Common Stock (Note 22)	₱11,284,096	₱3,873,528	₱11,284,096	₱3,873,528	₱3,873,528
Additional Paid in Capital (Note 22)	978,721	–	978,721	–	–
Preferred Stock (Note 22)	–	3,000,000	–	3,000,000	3,000,000
Surplus Reserves (Note 28)	38,967	36,183	38,967	36,183	33,073
Surplus (Note 28)	5,034,967	4,287,842	5,067,643	4,292,380	2,897,487
Net Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	1,174	299	1,174	299	6,299
Remeasurement Gains (Losses) on Retirement Plan	(14,247)	16,994	(14,247)	16,994	23,362
Cumulative Translation Adjustment	(16,351)	(7,699)	(16,351)	(7,699)	(54,429)
	17,307,327	11,207,147	17,340,003	11,211,685	9,779,320
NON-CONTROLLING INTEREST	13,553	16,452	–	–	–
TOTAL EQUITY	17,320,880	11,223,599	17,340,003	11,211,685	9,779,320
TOTAL LIABILITIES AND EQUITY	₱121,403,340	₱96,006,065	₱118,431,313	₱94,601,210	₱83,777,174

See accompanying Notes to Financial Statements.

Statements of Income

	Consolidated (Note 2)		Parent Company		
	Years Ended December 31				
	2012	2011 (As restated - Note 2)	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
	(Amounts in Thousands)				
INTEREST INCOME					
Loans and receivables (Notes 10 and 27)	₱6,835,521	₱5,450,230	₱6,688,256	₱5,379,937	₱4,518,081
Trading and investment securities (Note 9)	842,262	1,108,695	842,261	1,108,695	1,070,061
Due from other banks and interbank loans receivable and securities purchased under resale agreements	137,833	204,422	136,996	202,947	297,451
	7,815,616	6,763,347	7,667,513	6,691,579	5,885,593
INTEREST EXPENSE					
Deposit liabilities (Note 16)	1,424,556	1,477,742	1,393,282	1,465,053	1,328,327
Subordinated debt, bills payable and other borrowings (Notes 17 and 19)	303,237	372,246	294,689	354,278	238,817
	1,727,793	1,849,988	1,687,971	1,819,331	1,567,144
NET INTEREST INCOME	6,087,823	4,913,359	5,979,542	4,872,248	4,318,449
Service charges, fees and commissions	1,860,223	1,536,774	1,737,154	1,509,182	1,341,778
Trading and securities gain (Note 9)	988,110	447,188	988,110	447,188	1,155,257
Foreign exchange gain	223,193	184,416	223,193	184,437	293,709
Gain on asset foreclosure and dacion transactions	42,412	84,650	29,853	82,622	50,959
Gain on sale (loss on derecognition) of investment securities at amortized cost (Note 9)	276,883	(44,440)	276,883	(44,440)	–
Trust income (Note 28)	27,842	31,103	27,842	31,103	45,019
Gain (loss) on sale of assets	4,904	(15,580)	(4,284)	(14,815)	42,281
Miscellaneous (Note 23)	272,237	166,048	228,118	146,413	146,967
TOTAL OPERATING INCOME	9,783,627	7,303,518	9,486,411	7,213,938	7,394,419
OPERATING EXPENSES					
Compensation and fringe benefits (Notes 25 and 27)	1,983,616	1,441,389	1,883,482	1,415,653	1,365,951
Provision for impairment and credit losses (Notes 10, 12, 14 and 15)	1,530,795	731,848	1,507,833	731,848	1,552,211
Taxes and licenses	722,607	527,439	682,997	519,205	452,495
Depreciation and amortization (Notes 11, 12 and 14)	431,072	325,950	393,017	289,899	250,853
Rent (Note 26)	410,178	291,049	386,662	282,623	273,789
Amortization of intangible assets (Note 13)	129,975	75,246	125,658	74,387	84,309
Miscellaneous (Note 23)	2,583,001	1,800,594	2,473,200	1,786,086	1,636,446
TOTAL OPERATING EXPENSES	7,791,244	5,193,515	7,452,849	5,099,701	5,616,054
INCOME BEFORE INCOME TAX	1,992,383	2,110,003	2,033,562	2,114,237	1,778,365
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)	176,002	379,498	188,015	378,734	(31,501)
NET INCOME	₱1,816,381	₱1,730,505	₱1,845,547	₱1,735,503	₱1,809,866
ATTRIBUTABLE TO:					
Equity holders of the Parent Company	₱1,817,409	₱1,730,965			
Non-controlling interest	(1,028)	(460)			
NET INCOME	₱1,816,381	₱1,730,505			
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	₱1.85	₱3.77	–	–	₱4.15
Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	₱1.76	₱2.52	–	–	₱2.63

See accompanying Notes to Financial Statements.

Statements of Comprehensive Income

	Consolidated (Note 2)		Parent Company		
	Years Ended December 31				
	2012	2011 (As restated - Note 2)	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
	(Amounts in Thousands)				
NET INCOME FOR THE YEAR	**₱1,816,381**	₱1,730,505	**₱1,845,547**	₱1,735,503	₱1,809,866
OTHER COMPREHENSIVE INCOME (LOSS)					
Unrealized gains (losses) on financial assets at fair value through other comprehensive income	**875**	(6,000)	**875**	(6,000)	–
Remeasurement gains (losses) on retirement plan	**(31,241)**	(6,368)	**(31,241)**	(6,368)	23,362
Cumulative translation adjustment	**(8,652)**	46,730	**(8,652)**	46,730	(40,194)
Unrealized gains on available-for-sale investments	–	–	–	–	1,050,777
Realized loss on available for sale investments transferred to statement of income (Note 9)	–	–	–	–	(1,134,413)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(39,018)**	34,362	**(39,018)**	34,362	(100,468)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱1,777,363**	₱1,764,867	**₱1,806,529**	₱1,769,865	₱1,709,398
ATTRIBUTABLE TO:					
Equity holders of the Parent Company	**₱1,778,391**	₱1,765,327			
Non-controlling interest	**(1,028)**	(460)			
TOTAL COMPREHENSIVE INCOME	**₱1,777,363**	₱1,764,867			

See accompanying Notes to Financial Statements.

Statements of Changes in Equity

Consolidated (Note 2)

Year Ended December 31, 2012

Equity Attributable to Equity Holders of the Parent Company

	Common Stock	Additional Paid in Capital	Preferred Stock	Surplus Reserves	Surplus	Net Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasuremen t Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total	Non-Controlling Interests	Total Equity
					(Amounts in Thousands)						
Balances at January 1, 2012, as previously reported	₱3,873,528	₱–	₱3,000,000	₱36,183	₱4,305,370	₱299	₱–	(₱7,699)	₱11,207,681	₱16,452	₱11,224,133
Effect of adoption of PAS 19, *Employee Benefits (Revised)* (Note 2)	–	–	–	–	(17,528)	–	16,994	–	(534)	–	(534)
Balances at January 1, 2012, as restated	3,873,528	–	3,000,000	36,183	4,287,842	299	16,994	(7,699)	11,207,147	16,452	11,223,599
Net income	–	–	–	–	1,817,409	–	–	–	1,817,409	(1,028)	1,816,381
Other comprehensive income (loss)	–	–	–	–	–	875	(31,241)	(8,652)	(39,018)	–	(39,018)
Total comprehensive income (loss)	–	–	–	–	1,817,409	875	(31,241)	(8,652)	1,778,391	(1,028)	1,777,363
Conversion of preferred stock to common stock (Note 22)	3,000,000	–	(3,000,000)	–	–	–	–	–	–	–	–
Issuance of common stock (Note 22)	4,410,568	978,721	–	–	–	–	–	–	5,389,289	–	5,389,289
Dividends paid (Note 22)	–	–	–	–	(1,067,500)	–	–	–	(1,067,500)	–	(1,067,500)
Transfer to surplus reserves (Note 28)	–	–	–	2,784	(2,784)	–	–	–	–	–	–
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	(8,773)	(8,773)
Acquisition of a subsidiary (Note 7)	–	–	–	–	–	–	–	–	–	6,902	6,902
Balances at December 31, 2012	₱11,284,096	₱978,721	₱–	₱38,967	₱5,034,967	₱1,174	(₱14,247)	(₱16,351)	₱17,307,327	₱13,553	₱17,320,880

Consolidated (Note2)

Year Ended December 31, 2011

Equity Attributable to Equity Holders of the Parent Company

	Common Stock	Additional Paid in Capital	Preferred Stock	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total	Non-Controlling Interests	Total Equity
					(Amounts in Thousands)						
Balances at January 1, 2011, as previously reported	₱3,873,528	₱–	₱3,000,000	₱33,073	₱2,913,027	₱6,299	₱–	(₱54,429)	₱9,771,498	₱–	₱9,771,498
Effect of adoption of PAS 19, *Employee Benefits (Revised)* (Note 2)	–	–	–	–	(15,540)	–	23,362	–	7,822	–	7,,822
Balances at January 1, 2011, as restated	3,873,528	–	3,000,000	33,073	2,897,487	6,299	23,362	(54,429)	9,779,320		9,779,320
Net income, as previously reported	–	–	–	–	1,732,953	–	–	–	1,732,953	(460)	1,732,493
Effect of adoption of PAS 19, *Employee Benefits (Revised)* (Note 2)	–	–	–	–	(1,988)	–	–	–	(1,988)	–	(1,988)
Net income, as restated	–	–	–	–	1,730,965	–	–	–	1,730,965	(460)	1,730,505
Other comprehensive income (loss), as previously reported	–	–	–	–	–	(6,000)	–	46,730	40,730	–	40,730
Effect of adoption of PAS 19, *Employee Benefits (Revised)* (Note 2)	–	–	–	–	–	–	(6,368)	–	(6,368)	–	(6,368)
Other comprehensive income (loss), as restated	–	–	–	–	–	(6,000)	(6,368)	46,730	34,362	–	34,362
Total comprehensive income (loss), as restated	–	–	–	–	1,730,965	(6,000)	(6,368)	46,730	1,765,327	(460)	1,764,867
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, as restated	₱3,873,528	₱–	₱3,000,000	₱36,183	₱4,287,842	₱299	₱16,994	(₱7,699)	₱11,207,147	₱16,452	₱11,223,599

Parent Company Year Ended December 31, 2012	Common Stock	Additional Paid in Capital	Preferred Stock	Surplus Reserves	Surplus	Net Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total Equity
	(Amounts in Thousands)								
Balances at January 1, 2012, as previously reported	₱3,873,528	₱–	₱3,000,000	₱36,183	₱4,309,908	₱299	₱–	(₱7,699)	₱11,212,219
Effect of adoption of PAS 19, *Employee Benefits (Revised)* (Note 2)	–	–	–	–	(17,528)	–	16,994	–	(534)
Balances at January 1, 2012, as restated	3,873,528	–	3,000,000	36,183	4,292,380	299	16,994	(7,699)	11,211,685
Net income, as restated	–	–	–	–	1,845,547	–	–	–	1,845,547
Other comprehensive income (loss)	–	–	–	–	–	875	(31,241)	(8,652)	(39,018)
Total comprehensive income (loss)	–	–	–	–	1,845,547	875	(31,241)	(8,652)	1,806,529
Conversion of preferred stock to common stock (Note 22)	3,000,000	–	(3,000,000)	–	–	–	–	–	–
Issuance of common stock (Note 22)	4,410,568	978,721	–	–	–	–	–	–	5,389,289
Transfer to surplus reserves (Note 28)	–	–	–	2,784	(2,784)	–	–	–	–
Dividends paid (Note 22)	–	–	–	–	(1,067,500)	–	–	–	(1,067,500)
Balances at December 31, 2012	₱11,284,096	₱978,721	₱–	₱38,967	₱5,067,643	₱1,174	(₱14,247)	(₱16,351)	₱17,340,003

Parent Company Years Ended December 31, 2011	Common Stock	Additional Paid in Capital	Preferred Stock	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total Equity
	(Amounts in Thousands)								
Balances at January 1, 2011, as previously reported	₱3,873,528	₱–	₱3,000,000	₱33,073	₱2,913,027	₱6,299	₱–	(₱54,429)	₱9,771,498
Effect of adoption of PAS 19, *Employee Benefits (Revised)* (Note 2)	–	–	–	–	(15,540)	–	23,362	–	7,822
Balances at January 1, 2011, as restated *	3,873,528	–	3,000,000	33,073	2,897,487	6,299	23,362	(54,429)	9,779,320
Net income, as previously reported	–	–	–	–	1,737,491	–	–	–	1,737,491
Effect of early adoption of PAS 19, *Employee Benefits (Revised)* (Note 2)	–	–	–	–	(1,988)	–	–	–	(1,988)
Net income, as restated	–	–	–	–	1,735,503	–	–	–	1,735,503
Other comprehensive income (loss), as previously reported	–	–	–	–	–	(6,000)	–	46,730	40,730
Effect of adoption of PAS 19, *Employee Benefits (Revised)* (Note 2)	–	–	–	–	–	–	(6,368)	–	(6,368)
Other comprehensive income (loss), as restated	–	–	–	–	–	(6,000)	(6,368)	46,730	34,362
Total comprehensive income (loss), as restated	–	–	–	–	1,735,503	–	(6,368)	46,730	1,769,865
Transfer to surplus reserves (Note 28)	–	–	–	3,110	(3,110)	–	–	–	–
Dividends paid (Note 22)	–	–	–	–	(337,500)	–	–	–	(337,500)
Balances at December 31, 2011, as restated	₱3,873,528	₱–	₱3,000,000	₱36,183	₱4,292,380	₱299	₱16,994	(₱7,699)	₱11,211,685

**Balances are not the same as the balances as of December 31, 2010, as restated for the adoption of PAS 19, Employee Benefits (Revised), due to the early adoption of PFRS 9, Financial Instruments: Classification and Measurement as at January 1, 2011.*

	Parent Company								
	Years Ended December 31, 2010								
	Common Stock	Additional Paid in Capital	Preferred Stock	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Available- for-Sale Investments	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total Equity
	(Amounts in Thousands)								
Balances at January 1, 2010, as previously reported	₱3,873,528	₱–	₱3,000,000	₱28,571	₱979,290	₱272,408	₱–	(₱14,235)	₱8,139,562
Effect of early adoption of PAS 19 *Employee Benefits* (*Revised*) (Note 2)	–	–	–	–	(14,746)	–	–	–	(14,746)
Balances at January 1, 2010, as restated	3,873,528	–	3,000,000	28,571	964,544	272,408	–	(14,235)	8,124,816
Net income, as previously reported	–	–	–	–	1,810,660	–	–	–	1,810,660
Effect of early adoption of PAS 19, *Employee Benefits (Revised)* (Note 2)	–	–	–	–	(794)	–	–	–	(794)
Net income, as restated	–	–	–	–	1,809,866	–	–	–	1,809,866
Other comprehensive income (loss), as previously reported	–	–	–	–	–	(83,636)	–	(40,194)	(123,830)
Effect of early adoption of PAS 19, *Employee Benefits (Revised)* (Note 2)	–	–	–	–	–	–	23,362	–	23,362
Other comprehensive income, as restated	–	–	–	–	–	(83,636)	23,362	(40,194)	(100,468)
Total comprehensive income (loss), as restated	–	–	–	–	1,809,866	(83,636)	23,362	(40,194)	1,709,398
Dividends paid (Note 22)	–	–	–	–	(67,500)	–	–	–	(67,500)
Transfer to surplus reserves (Note 28)	–	–	–	4,502	(4,502)	–	–	–	–
Balances at December 31, 2010, as restated *	₱3,873,528	₱–	₱3,000,000	₱33,073	₱2,702,408	₱188,772	₱23,362	(₱54,429)	₱9,766,714

**Balances do not include the effect of early adoption of PFRS 9, Financial Instruments: Classification and Measurement as at January 1, 2011.*

See accompanying Notes to Financial Statements.

	Consolidated (Note 2)		Parent Company		
	Years Ended December 31				
	2012	2011 (As restated - Note 2)	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
	(Amounts in Thousands)				
CASH FLOWS FROM OPERATING ACTIVITIES					
Income before income tax	**₱1,992,383**	₱2,110,003	**₱2,033,562**	₱2,114,237	₱1,778,365
Adjustments for:					
Provision for impairment and credit losses (Note 15)	**1,530,795**	731,848	**1,507,833**	731,848	1,552,211
Depreciation and amortization (Notes 11, 12 and 14)	**431,072**	325,950	**393,017**	289,899	250,853
Gain on asset foreclosure and dacion transactions	**(42,412)**	(84,650)	**(29,853)**	(82,622)	(50,959)
Amortization of intangible assets (Note 13)	**129,975**	75,246	**125,658**	74,387	84,309
Loss on derecognition (gain on sale) of investment securities at amortized cost	**(276,883)**	44,440	**(276,883)**	44,440	–
Loss (gain) on sale of assets	**(4,904)**	15,580	**4,284**	14,815	(42,281)
Gain on sale of available-for-sale investments (Note 9)	**–**	–	**–**	–	(1,134,413)
Write-off of capitalized software (Note 13)	**–**	1,542	**–**	–	812
Changes in operating assets and liabilities:					
Decrease (increase) in the amounts of:					
Financial assets at fair value through profit or loss	**4,637,440**	5,219,300	**4,637,440**	5,219,300	(3,111,377)
Loans and receivables	**(24,939,561)**	(8,752,913)	**(23,090,111)**	(8,786,734)	(8,846,130)
Other assets	**(279,269)**	65,212	**(284,698)**	61,469	366,008
Increase (decrease) in the amounts of:					
Deposit liabilities	**14,529,375**	9,003,287	**12,928,919**	9,117,008	6,687,850
Accrued taxes, interest and other expenses	**202,922**	(206,191)	**46,730**	(19,683)	311,316
Cashier's checks and demand draft payable	**261,829**	153,091	**261,829**	153,091	(522,776)
Other liabilities	**865,775**	(1,720,270)	**1,031,835**	(1,872,937)	995,669
Net cash generated from (used in) operations	**(961,463)**	6,981,475	**(710,438)**	7,058,518	(1,680,543)
Income taxes paid	**(168,349)**	(198,767)	**(167,475)**	(198,424)	(199,999)
Net cash provided by (used in) operating activities	**(1,129,812)**	6,782,708	**(877,913)**	6,860,094	(1,880,542)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of:					
Investment securities at amortized cost (Note 9)	**1,564,795**	–	**1,564,795**	–	–
Investment properties and other repossessed assets (Note 12)	**297,321**	224,775	**285,412**	207,871	136,317
Property and equipment (Note 11)	**107,507**	2,149	**8,909**	2,149	33,954
Available-for-sale investments	**–**	–	**–**	–	83,304,663
Proceeds from maturity of investment securities at amortized cost	**363,302**	–	**363,302**	–	–

(Forward)

	Consolidated (Note 2)		Parent Company		
	Years Ended December 31				
	2012	2011 (As restated - Note 2)	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
	(Amounts in Thousands)				
Acquisitions of:					
Investment securities at amortized cost	**(₱2,322,322)**	(₱2,490,183)	**(₱2,322,322)**	(₱2,490,183)	₱–
Property and equipment (Note 11)	**(1,221,624)**	(724,904)	**(1,153,716)**	(699,780)	(505,095)
Branch licenses (Note 13)	**(822,000)**	–	**(822,000)**	–	–
Capitalized software (Note 13)	**(248,169)**	(135,241)	**(246,688)**	(123,569)	(136,296)
Available-for-sale investments	–	–	–	–	(83,247,749)
Additional investments in subsidiaries, including deposit for future stock subscription (Notes 1 and 10)	–	–	**(168,426)**	–	–
Acquisition of a subsidiary, net of cash acquired (Note 7)	**(19,700)**	268,807	**(34,098)**	(158,548)	–
Net cash used in investing activities	**(2,300,890)**	(2,854,597)	**(2,524,832)**	(3,262,060)	(414,206)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from bills and acceptances payable	**18,317,295**	12,690,691	**18,317,295**	11,040,621	464,060
Payments of bills and acceptances payable	**(14,909,096)**	(10,748,189)	**(14,906,730)**	(9,040,940)	(2,260,556)
Issuance of common stock, net of direct cost related to issuance (Note 22)	**5,389,289**	–	**5,389,289**	–	–
Payments of dividends (Note 22)	**(1,067,500)**	(337,500)	**(1,067,500)**	(337,500)	(67,500)
Acquisition of non-controlling interest (Note 1)	**(8,773)**	–	–	–	–
Proceeds from issuance of subordinated debt (Note 19)	–	–	–	–	1,500,000
Net cash provided by financing activities	**7,721,215**	1,605,002	**7,732,354**	1,662,181	(363,996)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,290,513**	5,533,113	**4,329,609**	5,260,215	(2,658,744)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR					
Cash and other cash items	**2,243,104**	2,079,324	**2,190,159**	2,079,324	1,605,787
Due from Bangko Sentral ng Pilipinas	**11,315,202**	11,556,018	**11,306,441**	11,556,018	6,322,227
Due from other banks	**1,739,088**	1,253,412	**1,527,896**	1,253,412	3,285,005
Interbank loans receivable and securities purchased under resale agreements	**7,723,094**	2,598,621	**7,723,094**	2,598,621	8,933,100
	23,020,488	17,487,375	**22,747,590**	17,487,375	20,146,119
CASH AND CASH EQUIVALENTS AT END OF YEAR					
Cash and other cash items	**3,235,161**	2,243,104	**3,180,497**	2,190,159	2,079,324
Due from Bangko Sentral ng Pilipinas	**21,855,275**	11,315,202	**21,789,239**	11,306,441	11,556,018
Due from other banks	**1,637,917**	1,739,088	**1,524,815**	1,527,896	1,253,412
Interbank loans receivable and securities purchased under resale agreements	**582,648**	7,723,094	**582,648**	7,723,094	2,598,621
	₱27,311,001	₱23,020,488	**₱27,077,199**	₱22,747,590	₱17,487,375

NET OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS					
Interest received	**₱7,771,785**	₱6,767,618	**₱7,702,386**	₱6,676,758	₱5,723,065
Interest paid	**1,857,219**	1,858,708	**1,747,772**	1,797,391	1,490,151
Dividend received	**975**	1,047	**975**	1,047	1,066

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. On July 31, 2012, the Bank received the approval of the BSP to operate as a universal bank. As of December 31, 2012, the Parent Company is effectively 75% owned by Filinvest Development Corporation (FDC). The Parent Company's ultimate parent company is A.L. Gotianun, Inc.

The Parent Company is a domestic corporation registered with the Securities and Exchange Commission (SEC) on March 22, 1994. In 2012, the Parent Company conducted an initial public offering (IPO) of its 283,113,600 common shares. The Parent Company's common shares were listed and commenced trading in the Philippine Stock Exchange (PSE) on May 7, 2012 (see Note 22).

Through its network of 245, 122 and 113 branches as of December 31, 2012, 2011 and 2010, 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.

On March 19, 2009, 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.

On August 19, 2011, the Parent Company acquired 84.78% of the voting shares of Green Bank (A Rural Bank), Inc. (GBI) for ₱158.55 million. 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 (see Note 7). In 2012, the Parent Company acquired additional shares from the non-controlling shareholder amounting to ₱8.77 million and from GBI's unissued capital stock amounting to ₱19.65 million, increasing its ownership to 96.53% as of December 31, 2012. The Parent Company's investment in GBI amounted to ₱186.97 million and ₱158.55 million as of December 31, 2012 and 2011, respectively.

On July 11, 2012, the Parent Company acquired 83.17% voting shares of FinMan Rural Bank, Inc. (FRBI) for ₱34.10 million. FRBI's primary purpose is to accumulate deposit and grant loans to various individuals and small-scale corporate entities as well as government and private employees (see Note 7). In 2012, the Parent Company acquired additional shares of FRBI from its unissued capital stock amounting to ₱20.00 million, increasing its ownership to 91.58%. The Parent Company's investment in FRBI amounted to ₱54.10 million as of December 31, 2012.

The Parent Company's investments in subsidiaries do not include the deposit for future stock subscription in GBI and FRBI amounting to ₱700.00 million and ₱120.00 million, respectively, as of December 31, 2012 (see Notes 10 and 27).

Both GBI and FRBI (the Subsidiaries) were consolidated with the Parent Company from the time the latter gained control.

On October 8, 2012, the Parent Company filed a change in business address with the SEC from its previous location at 20th Floor, PBCom Tower, 6795 Ayala Avenue, corner V. A. Rufino St., Makati City to its new principal place of business, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

The accompanying financial statements of the Group were approved and authorized for issue by the Board of Directors (BOD) on February 28, 2013.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the Group) as of and for the years ended December 31, 2012 and 2011, and of the Parent Company as of December 31, 2012 and 2011 and January 1, 2011 and for the years ended December 31, 2012, 2011 and 2010. PFRS requires presentation of statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively. Accordingly, the Parent Company presents statement of financial position as of January 1, 2011 as a result of early adoption of PAS 19, *Employee Benefits (Revised)* as at January 1, 2012, which is applied retrospectively. There are no consolidated financial statements presented as of January 1, 2011 and for the year ended December 31, 2010 as the Parent Company only started preparing consolidated financial statements when it acquired GBI in August 2011.

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) 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 subsidiaries 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 subsidiaries are 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 subsidiaries 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.

A 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 adoption of the following new and amended standards effective January 1, 2012.

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

The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments are effective for periods beginning on or after July 1, 2011. The amendments will affect disclosures only and have no impact on the Group's financial position or performance.

PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments are effective for periods beginning on or after January 1, 2012. As the Group does not have investment properties, and property and equipment measured using the fair value model, the amendment has no impact on the financial statements of the Group.
PAS 19, *Employee Benefits* (Revised)
The impact on the financial statements of the Group's adoption of PAS 19, *Employee Benefits* (Revised) is described below:

The International Accounting Standards Board (IASB) issued amendments to PAS 19, *Employee Benefits* in June 2011. The amendments become effective for annual periods beginning on or after January 1, 2013, with early application permitted. When adopted, the standard is applied retrospectively. On January 1, 2012, the Group opted to early adopt PAS 19 (Revised).

For defined benefit plans, PAS 19 (Revised) requires all remeasurements (including actuarial gains and losses) to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of PAS 19 (Revised), the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the PAS 19 (Revised), the Group changed its accounting policy to recognize all remeasurements in other comprehensive income and all past service costs in profit or loss in the period they occur.

PAS 19 (Revised) replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

PAS 19 (Revised) also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, PAS 19 (Revised) modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

The Group has opted to close to Surplus the effect of all transition adjustments as at January 1, 2010 (the transition date) amounting to ₱21.07 million. Moving forward, the Group will retain the remeasurements recognized in other comprehensive income and will not transfer these to other items in equity.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows (amounts in thousands except for per share amounts):

	Consolidated	Parent Company	
	As at December 31, 2011		As at January 1,2011
Increase (decrease) in:			
Statements of financial position			
Net plan assets	(₱763)	(₱763)	₱11,173
Deferred tax assets	229	229	(3,351)
Remeasurement gains on retirement plan	16,994	16,994	23,362
Surplus	(17,528)	(17,528)	(15,540)

	Consolidated	Parent Company	
	Years Ended December 31		
	2011	2011	2010
Increase (decrease) in:			
Statements of income			
Compensation and fringe benefits	₱2,840	₱2,840	₱1,134
Provision for income tax	(852)	(852)	(340)
Net income	1,988	1,988	794
Attributable to equity holders of the Parent Company	1,988	1,988	794
Attributable to non-controlling interests	–	–	–
Basic earnings per share	(0.01)	–	–
Diluted earnings per share	–	–	–
Statements of comprehensive income			
Remeasurement gains (losses) on retirement plan	(9,096)	(9,096)	33,374
Income tax effects	2,728	2,728	(10,012)
Other comprehensive income (loss) for the year, net of tax	(6,368)	(6,368)	23,362
Attributable to the equity holders of the Parent Company	(6,368)	–	–
Attributable to non-controlling interests	–	–	–

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
For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*). 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. In 2012 and 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.

Financial assets 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. When 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 directly 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 at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or 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, 2012 and 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.

Issued financial instruments or their components, which are not designated at FVTPL, are classified as financial liabilities at amortized cost 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, 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.

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	30-40
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 repossessed assets included in 'Other assets' in the statement of financial position.

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

Business Combinations

Business combinations are accounted for using the 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 elects whether to measure the noncontrolling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related 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 PFRS 9 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.

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 and branch licenses, 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 are determined to have indefinite useful lives. These are tested for impairment annually either individually or at the CGU level. Such intangible assets 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 related to the credit cards business is amortized on a straight-line basis over its useful life of 40 years while the customer relationship related to the auto loans business 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 assets at FVPTL 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. This also includes gains and losses from disposals of AFS investments prior to adoption of PFRS 9 in 2011.

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.

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

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

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

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.

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

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Expenses in the statement of income are presented using the nature of expense method. General and administrative expenses are cost attributable to administrative and other business activities of the Group.

Retirement Cost
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is 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 cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets (excluding net interest on defined benefit asset) and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in the other comprehensive income account 'Remeasurement gains (losses) on retirement plan' are not reclassified to another equity account in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.
A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes the related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Provisions and Contingencies
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.

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 are 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* (Amendments)
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 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 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 - Offsetting Financial Assets and Financial Liabilities* (Amendments)
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. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Group. 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 2011. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. The Group will assess the impact of other phases of PFRS 9 when issued.

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.

PAS 32*, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
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. The amendments affect presentation only and have no impact on the Group's financial position or performance. 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.

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.

Annual Improvements to PFRSs (2009-2011 cycle)

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

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

PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

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

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

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

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) 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).

b) 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 addition, GBI and FRBI determined that their respective functional currency is in Philippine peso. In making these judgments, the Group 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.

c) *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. Thus, leases are classified as operating leases (see Note 26).

d) *Business model for managing financial assets*
Change in the Business Model
Under PFRS 9, the Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. The Group is required to reclassify the financial assets (i) from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and (ii) 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.

In 2012, management deemed it necessary to change the way it manages its investment securities because of significant changes in its strategic plans, funding structure and cash flow profile brought about by the IPO and its branch expansion program. Management considered the previous model not adequate to capture the fast evolution of the Parent Company's business strategies. Prior to the change, the Parent Company's business model for the financial assets carried at amortized cost was focused on minimizing, if not to close, the maturity gap in its statement of financial position by matching core deposits, taken from the longest tenor bucket of the maturity gap, with longer termed debt instruments. In 2012, the Parent Company's business model was revised and now focuses on asset-liability management based on the Parent Company's maximum cumulative outflow and expansion of the Parent Company's investment portfolios to reflect the Parent Company's investment strategy.

The Parent Company has determined that the changes qualify as a change in business model for managing financial assets that would require reclassifications of certain financial assets Accordingly, the Parent Company made certain reclassifications pursuant to the new business model effective July 1, 2012, resulting in ₱711.89 million of 'Trading and securities gain' in the statement of income, representing the difference between the aggregate amortized cost of certain securities amounting to ₱5.58 billion and their aggregate fair value of ₱6.29 billion at the reclassification date.

Sale of Investment Securities at Amortized Cost
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 or derecognition of debt instrument under any of the circumstances spelled out under paragraph 7, Section 2 of BSP Circular No. 708, Series of 2011;
- sales in preparation for funding a potential aberrant behavior in the depositors' withdrawal pattern triggered by news of massive withdrawals or massive withdrawal already experienced by other systemically important banks in the industry;
- sales attributable to an anticipated or in reaction of major events in the local and/or international arena that may adversely affect the collectability of the debt instrument and seen to prospectively affect adversely the behavior of deposits or creditors;
- sales attributable to a change in the Bank's strategy upon completion of the other phases of PFRS 9;
- sales that Asset-Liability Management Committee (ALCO) deems appropriate to be consistent with managing the Bank's balance sheet based upon but are not limited to the set risk limits and target ratios that have been approved by the BOD; and
- sales attributable to deterioration in the credit quality.

In 2012, the Parent Company sold government securities classified as investment securities at amortized cost. The sale of investment securities was contemplated to secure financing for the Parent Company's future capital expenditures. In 2011, the Parent Company participated in a debt exchange program initiated by the Bureau of Treasury for certain investments in government securities at amortized cost. The exchange of investment securities at amortized cost was executed because of a change in the debt structure initiated by the creditor. The Parent Company has determined that the sale of investment securities in 2012 and its participation in the debt exchange program in 2011 are still consistent with its business model of managing financial assets to collect contractual cash flows.

e) *Cash flow characteristics test*
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.

<u>Estimates</u>
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, 2012 and 2011, loans and receivables of the Group are carried at ₱71.19 billion and ₱48.09 billion, respectively. As of December 31, 2012 and 2011, loans and receivables of the Parent Company are carried at ₱69.47 billion and ₱48.08 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, the 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, 2012, the Group's and Parent Company's derivative liabilities amounted to ₱56.37 million. As of December 31, 2011, the Group's and Parent Company's derivative assets amounted to ₱0.45 million (see Note 5).

c) *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, 2012 and 2011, the Group's recognized net deferred tax assets amounted to ₱973.14 million and ₱928.16 million (as restated), respectively. As of December 31, 2012 and 2011 and January 1, 2011, the net deferred tax assets of the Parent Company amounted to ₱1.15 billion, ₱1.12 billion (as restated) and ₱1.27 billion (as restated), respectively (see Note 24).

d) *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, 2012 and 2011, the carrying value of the Group's property and equipment amounted to ₱2.74 billion and ₱1.95 billion, respectively, while the carrying value of the Group's investment properties amounted to ₱937.65 million and ₱1.09 billion, respectively. As of December 31, 2012 and 2011, the carrying value of the Parent Company's property and equipment amounted to ₱2.57 billion and ₱1.73 billion, respectively (see Note 11), while the carrying value of the Parent Company's investment properties amounted to ₱730.34 million and ₱866.10 million, respectively (see Note 12).

e) *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 12.71% and 12.00% as of December 31, 2012 and 2011, 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, 2012 and 2011, the carrying value of goodwill of the Group amounted to ₱1.32 billion and ₱1.29 billion, respectively. As of December 31, 2012 and 2011, the carrying value of the goodwill of the Parent Company amounted to ₱0.92 billion (see Note 13).

f) 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	
	2012	2011	**2012**	2011
Property and equipment (Note 11)	**₱2,441,997**	₱1,633,736	**₱2,308,728**	₱1,470,150
Investment properties (Note 12)	**270,518**	295,379	**237,585**	253,596
Other repossessed assets (Note14)	**119,221**	79,036	**119,221**	78,976
Intangible assets (Note 13)	**635,723**	517,529	**629,288**	508,258

g) Retirement obligation

The cost of defined benefit retirement plans and other post employment medical benefits as well as the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates.

Further details about the assumptions used are provided in Note 25.

The Group's net retirement obligation amounted to ₱27.04 million as of December 31, 2012 and the net plan assets amounted to ₱24.30 million (as restated) as of December 31, 2011. As of December 31, 2012, the net retirement obligation of the Parent Company amounted to ₱8.93 million, while the net plan assets of the Parent Company as of December 31, 2011 amounted to ₱41.05 million (as restated) (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, operational 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, control 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 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 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 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 these policies. The RMC also evaluates the Parent Company's risk exposures and measures 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, operational, and all other risks of the Parent Company.

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 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. To identify and assess this risk, the Bank has a structured and standardized credit rating, and approval process according to the borrower or business and/or product segment. For large corporate credit transactions, the Parent Company has a comprehensive procedure for credit evaluation, risk assessment and well-defined concentration limits, which are established for each type of borrower. At the portfolio level-which may be on an overall or by product perspective, RMD manages the Parent Company's credit risk.

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.

Aside from ensuring compliance with BSP's limit on exposures to any single person or group of connected persons, it is the Parent Company's policy to keep the expected loss (determined based on the credit risk rating of the account) of large exposure accounts to, at most, one percent (1.00%) of their aggregate outstanding balance. This is to maintain the quality of the Parent Company's 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.

Aligned with the Manual of Regulations for Banks definition, the Parent Company considers its loan portfolio concentrated if it has exposures more than thirty percent (30.00%) to a particular industry.

Credit concentration profile as of December 31, 2012 and 2011

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							
	2012				2011			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral
Loans and receivables								
Receivables from customers								
Corporate lending	₱31,720,228	₱6,422,793	₱25,297,435	₱6,422,793	₱18,504,449	₱1,167,279	₱17,337,170	₱1,167,279
Consumer lending*	38,165,990	14,304,823	31,119,961	7,046,029	28,239,585	9,632,241	22,068,754	6,170,831
	₱69,886,218	₱20,727,616	₱56,417,396	₱13,468,822	₱46,744,034	₱10,799,520	₱39,405,924	₱7,338,110

*Consumer lending includes residential mortgage for purposes of the Note 4 disclosures.

	Parent Company							
	2012				2011			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral
Loans and receivables								
Receivables from customers								
Corporate lending	₱31,720,228	₱6,422,793	₱25,297,435	₱6,422,793	₱19,504,449	₱1,167,279	₱18,337,170	₱1,167,279
Consumer lending	35,734,037	13,930,516	29,062,315	6,671,722	27,438,733	9,600,168	21,299,975	6,138,758
	₱67,454,265	₱20,353,309	₱54,359,750	₱13,094,515	₱46,943,182	₱10,767,447	₱39,637,145	₱7,306,037

For off-balance sheet items, the figures presented below summarize the Group's and Parent Company's maximum exposure to credit risk:

	Consolidated					
	2012			2011		
	Credit Equivalent Amount	Credit Risk Mitigation	Net Credit Exposure	Credit Equivalent Amount	Credit Risk Mitigation	Net Credit Exposure
Off-balance sheet items						
Direct credit substitutes	₱214,973	₱–	₱214,973	₱83,443	₱–	₱83,443
Transaction-related contingencies	254,741	–	254,741	281,082	–	281,082
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	221,363	–	221,363	154,237	–	154,237
	₱691,077	₱–	₱691,077	₱518,762	₱–	₱518,762

	Parent Company					
	2012			2011		
	Credit Equivalent Amount	Credit Risk Mitigation	Net Credit Exposure	Credit Equivalent Amount	Credit Risk Mitigation	Net Credit Exposure
Off-balance sheet items						
Direct credit substitutes	₱214,973	₱–	₱214,973	₱83,443	₱–	₱83,443
Transaction-related contingencies	254,741	–	254,741	281,082	–	281,082
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	221,363	–	221,363	154,237	–	154,237
	₱691,077	₱–	₱691,077	₱518,762	₱–	₱518,762

Large exposures and top 20 borrowers

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

	2012			
	Top 20 Borrowers		Large Exposures	
	Single Borrowers	Group Borrowers	Single Borrowers	Group Borrowers
Aggregate Exposure	₱15.63	₱17.50	₱9.58	₱11.41
Composite Risk Rating	3.71	3.79	3.87	3.72
Total Expected Loss/Aggregate Exposure	0.81%	0.90%	0.88%	0.81%

	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%

As of December 31, 2012, 2011 and 2010, the maximum credit exposure to any client or counterparty is about ₱3.87 billion, ₱2.35 billion and ₱1.88 billion, respectively. The credit exposures, after due consideration of the allowed credit enhancements, of the Parent Company, are all compliant with the regulatory single borrower's limit indicated in the earlier statement as the maximum credit exposure to any client or counterparty.

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

	2012			
	Loans and Receivables*	**Loans and Advances to Banks****	**Investment Securities*****	**Total**
Financial intermediaries	**₱36,928,126**	**₱24,089,624**	**₱13,890,812**	**₱74,908,562**
Real estate, renting and business activity	**14,725,528**	**–**	**–**	**14,725,528**
Private households with employed persons	**49,136,103**	**–**	**–**	**49,136,103**
Wholesale and retail trade, repair of motor vehicles	**13,922,230**	**–**	**–**	**13,922,230**
Manufacturing	**6,590,972**	**–**	**–**	**6,590,972**
Agriculture, fisheries and forestry	**4,911,807**	**–**	**–**	**4,911,807**
Transportation, storage and communication	**1,955,996**	**–**	**–**	**1,955,996**
Others****	**26,480,558**	**–**	**–**	**26,480,558**
	154,651,320	**24,089,624**	**13,890,812**	**192,631,756**
Allowance for credit losses	**(3,154,065)**	**–**	**–**	**(3,154,065)**
	₱151,497,255	**₱24,089,624**	**₱13,890,812**	**₱189,477,691**

* 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.

	2011			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱32,068,999	₱20,819,434	₱17,855,859	₱70,744,292
Real estate, 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	17,855,859	139,652,437
Allowance for credit losses	(3,110,043)	(27,016)	–	(3,137,059)
	₱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:

	2012			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱36,870,604	₱23,910,486	₱13,890,402	₱74,671,492
Real estate, renting and business activity	14,698,962	–	–	14,698,962
Private households with employed persons	49,108,024	–	–	49,108,024
Wholesale and retail trade, repair of motor vehicles	13,805,636	–	–	13,805,636
Manufacturing	6,564,489	–	–	6,564,489
Agriculture, fisheries and forestry	4,312,959	–	–	4,312,959
Transportation, storage and communication	1,949,884	–	–	1,949,884
Others****	24,776,405	–	–	24,776,405
	152,086,963	23,910,486	13,890,402	189,887,851
Allowance for credit losses	(3,132,624)	–	–	(3,132,624)
	₱148,954,339	₱23,910,486	₱13,890,402	₱186,755,227

* 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.

	2011			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱33,066,094	₱20,599,481	₱17,855,859	₱71,521,434
Real estate, 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	17,855,859	139,425,426
Allowance for credit losses	(3,110,043)	(27,016)	–	(3,137,059)
	₱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

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	
	2012	2011	2012	2011
REM*	**12.53%**	14.96%	**16.50%**	14.07%
Other Collateral**	**13.83%**	16.22%	**33.96%**	30.05%
Unsecured	**73.65%**	68.82%	**49.54%**	55.88%

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

As for the computation of credit risk weights, collaterals of the back-to-back and Home Guaranty covered loans, and Philippine sovereign guarantees are the only credit risk mitigants considered as eligible.

Internal Credit Risk Rating System
The Parent Company employs a credit scoring system for all corporate borrowers 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

Rating	Description	Account/Borrower Characteristics
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.

Credit quality profile as of December 31, 2012 and 2011

External ratings

The Parent Company also uses external ratings, such as Standard & Poor's, Moody's, and Fitch, to evaluate its counterparties and in its assignment of credit risk weights to its banking book exposures. Transactions falling under this category are normally of the following nature: placements with other banks, money market lending, debt security investments, and to some extent, equity security 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:

	2012			
	AA/A	BB/B	Unrated	Total
Due from BSP	₱–	₱21,855,275	₱–	₱21,855,275
Due from other banks	585,695	856,812	195,410	1,637,917
IBLR and SPURA	582,648	–	–	582,648
Financial assets at FVTPL				
Sovereign and sovereign-guaranteed	215,853	1,590,086	–	1,805,939
Corporate bonds	–	1,072,180	134,542	1,206,722
Equity securities	120,627	999,998	127,039	1,247,664
	336,480	3,662,264	261,581	4,260,325
Investment securities at amortized cost				
Sovereign and sovereign-guaranteed	249,698	8,003,549	–	8,253,247
Corporate bonds	865,932	51,194	450,132	1,367,258
	1,115,630	8,054,743	450,132	9,620,505
Financial assets at FVTOCI				
Unquoted equity securities	–	127	9,855	9,982
	₱2,620,453	₱34,429,221	₱916,978	₱37,966,652

	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				
Sovereign and sovereign-guaranteed	–	3,903,332	–	3,903,332
Corporate 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				
Sovereign and sovereign-guaranteed	–	8,755,400	–	8,755,400
Corporate 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
	₱3,367,869	₱34,297,032	₱1,472,536	₱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:

	2012			
	AA/A	BB/B	Unrated	Total
Due from BSP	₱–	₱21,789,239	₱–	₱21,789,239
Due from other banks	585,695	743,710	195,410	1,524,815
IBLR and SPURA	582,648	–	–	582,648
Financial assets at FVTPL				
Sovereign and sovereign-guaranteed	215,853	1,590,086	–	1,805,939
Corporate bonds	–	1,072,180	134,542	1,206,722
Equity securities	120,627	999,998	127,039	1,247,664
	336,480	3,662,264	261,581	4,260,325
Investment securities at amortized cost				
Sovereign and sovereign-guaranteed	249,698	8,003,549	–	8,253,247
Corporate bonds	865,932	51,195	449,721	1,366,848
	1,115,630	8,054,744	449,721	9,620,095
Financial assets at FVTOCI				
Unquoted equity securities	–	127	9,855	9,982
	₱2,620,453	₱34,250,084	₱916,567	₱37,787,104

	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				
Sovereign and sovereign-guaranteed	–	3,903,332	–	3,903,332
Corporate 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				
Sovereign and sovereign-guaranteed	–	8,755,400	–	8,755,400
Corporate 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
	₱3,156,677	₱33,748,271	₱1,472,536	₱38,377,484

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:

	2012				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers					
Corporate lending	₱15,218,079	₱15,911,806	₱104,912	₱17,755	₱31,252,552
Consumer lending	1,997,023	16,462,502	16,809,692	188,899	35,458,116
	17,215,102	32,374,308	16,914,604	206,654	66,710,668
Unquoted debt securities	–	–	–	207,935	207,935
Accounts receivable	–	–	–	280,614	280,614
Accrued interest receivable	–	–	–	614,635	614,635
Sales contract receivable	–	–	–	119,534	119,534
	–	–	–	1,222,718	1,222,718
	₱17,215,102	₱32,374,308	₱16,914,604	₱1,429,372	₱67,933,386

	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:

	2012				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers					
Corporate lending	₱15,218,079	₱15,911,806	₱104,912	₱17,755	₱31,252,552
Consumer lending	264,616	16,462,502	16,809,692	–	33,536,810
	15,482,695	32,374,308	16,914,604	17,755	64,789,362
Unquoted debt securities	–	–	–	207,867	207,867
Accounts receivable	–	–	–	1,096,359	1,096,359
Accrued interest receivable	–	–	–	531,428	531,428
Sales contract receivable	–	–	–	102,886	102,886
	–	–	–	1,938,540	1,938,540
	₱15,482,695	₱32,374,308	₱16,914,604	₱1,956,295	₱66,727,902

	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

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 significant 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 significant 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 Bank'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 - personal loans,salary loans, housing loans, auto loans and credit cards.

The estimation of the impaired consumer products' estimated loss is based on three major concepts: age buckets, probability of default and recoverability. Per product, exposures are categorized according to their state of delinquency - (1) current and (2) past due (which is subdivided into 30, 60, 90, 120, 150, 180 and more than 180 days past due). Auto, housing and salary loans have an additional bucket for its items in litigation accounts. The Parent Company partitions its exposures as it recognizes that the age buckets have different rates and/ or probabilities of default. The initial estimates of losses per product due to default are then adjusted based on the recoverability of cash flows, to calculate the expected loss of the Parent Company. Auto and housing loans consider the proceeds from the eventual sale of foreclosed collaterals in approximating its recovery rate; while credit cards, salary loans and personal loans depend on the collection experience of its receivables. Further for housing loans, due to the nature of the assets offered as security, and as the exposures are limited to a certain percentage of the same, this product possess the unique quality of obtaining full recoverability. These default and recovery rates are based on the Parent Company's historical experience, which covers a minimum of two to three (2 - 3) years cycle, depending on the availability and relevance of data.

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

	Consolidated					
	2012					
	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	₱36,152	₱–	₱–	₱–	₱–	₱36,152
Consumer lending	152,989	8,254	120,837	150,281	623,330	1,055,691
	₱189,141	₱8,254	₱120,837	₱150,281	₱623,330	₱1,091,843

	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	315,348
	₱12,890	13,597	₱54,664	₱91,939	₱203,481	₱376,571

	Parent Company					
	2012					
	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	₱36,152	₱–	₱–	₱–	₱–	₱36,152
Consumer lending	101,994	3,407	111,439	132,666	196,437	545,943
	₱138,146	₱3,407	₱111,439	₱132,666	₱196,437	₱582,095

	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

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

Credit risk weighting as of December 31, 2012 and 2011

Total credit risk exposure after risk mitigation

The table below shows the different credit risk exposures of the Group and Parent Company after credit risk mitigation, by risk weight applied in accordance with BSP Circular No. 538:

	Consolidated							
	2012							
	Capital	Risk Buckets						
	Deduction	0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱2,388,614	₱26,145,142	₱882,578	₱3,922,097	₱5,963,410	₱69,818,770	₱2,937,661	₱109,669,658
Off-balance sheet assets	–	–	–	–	–	691,077	–	691,077
Counterparty in the banking book (derivatives and repo-style transactions)	–	1,376,530	–	–	–	3,230,922	–	4,607,452
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	14,391	6,190	–	88,732	–	109,313
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	2,388,614	27,521,672	896,969	3,928,287	5,963,410	73,829,501	2,937,661	115,077,500
Credit Risk Weighted Assets	₱–	₱–	₱179,394	₱1,964,144	₱4,472,557	₱73,829,501	₱4,406,491	₱84,852,087

	Consolidated							
	2011							
	Capital	Risk Buckets						
	Deduction	0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱2,337,643	₱25,484,753	₱1,556,374	₱2,707,824	₱3,772,247	₱51,486,473	₱2,733,222	₱87,740,893
Off-balance sheet assets	–	–	–	–	–	518,762	–	518,762
Counterparty in the banking book (derivatives and repo-style transactions)	–	2,116,292	–	–	–	696,484	–	2,812,776
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	30,897	29,127	–	110,088	–	170,112
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	2,337,643	27,601,045	1,587,271	2,736,951	3,772,247	52,811,807	2,733,222	91,242,543
Credit Risk Weighted Assets	₱–	₱–	₱317,454	₱1,368,476	₱2,829,185	₱52,811,807	₱4,099,832	₱61,426,754

	Parent Company 2012							
	Capital	Risk Buckets						
	Deduction	0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱2,177,997	₱26,018,586	₱882,316	₱3,922,097	₱5,957,573	₱67,524,554	₱2,667,813	₱106,972,939
Off-balance sheet assets	–	–	–	–	–	691,077	–	691,077
Counterparty in the banking book (derivatives and repo-style transactions)	–	1,376,530	–	–	–	3,230,922	–	4,607,452
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	14,391	6,190	–	88,732	–	109,313
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	2,177,997	27,395,116	896,707	3,928,287	5,957,573	71,535,285	2,667,813	112,380,781
Credit Risk Weighted Assets	₱–	₱–	₱179,341	₱1,964,144	₱4,468,180	₱71,535,285	₱4,001,720	₱82,148,670

	Parent Company 2011							
	Capital	Risk Buckets						
	Deduction	0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱3,265,957	₱25,424,797	₱1,554,625	₱2,707,824	₱3,577,920	₱49,412,648	₱2,320,953	₱84,998,767
Off-balance sheet assets	–	–	–	–	–	518,762	–	518,762
Counterparty in the banking book (derivatives and repo-style transactions)	–	2,116,292	–	–	–	696,484	–	2,812,776
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	30,897	29,127	–	110,088	–	170,112
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	3,265,957	27,541,089	1,585,522	2,736,951	3,577,920	50,737,982	2,320,953	88,500,417
Credit Risk Weighted Assets	₱–	₱–	₱317,104	₱1,368,476	₱2,683,440	₱50,737,982	₱3,481,429	₱58,588,432

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 funding 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 per tenor and 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						
	2012						
	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*	₱18,156	₱9,155	₱–	₱–	₱–	₱–	₱27,311
Investments and trading securities**	–	51	48	2,296	2,642	18,226	23,263
Loans and receivables	–	10,833	9,067	5,128	4,809	41,355	71,192
	₱18,156	₱20,039	₱9,115	₱7,424	₱7,451	₱59,581	₱121,766
Financial Liabilities							
Deposit liabilities***	₱–	₱8,785	₱14,050	₱12,007	₱4,069	₱54,733	₱93,644
Bills and acceptances payable	–	3,868	1,669	–	–	35	5,572
Subordinated debt	–	–	113	1	–	2,750	2,864
Other liabilities	733	32	55	65	52	3,523	4,460
Contingent liabilities	–	464	777	595	776	(1,098)	1,514
	₱733	₱13,149	₱16,664	₱12,668	₱4,897	₱59,943	₱108,054

* 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, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.

***Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.

	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**	–	597	302	1,403	1,447	26,374	30,123
Loans and receivables	397	7,577	6,479	3,974	1,131	30,397	49,955
	₱9,485	₱16,004	₱7,543	₱5,786	₱2,717	₱61,606	₱103,141
Financial Liabilities							
Deposit liabilities***	₱509	₱3,337	₱3,877	₱2,267	₱2,829	₱72,315	₱85,134
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	₱5,824	₱4,033	₱2,557	₱2,985	₱77,883	₱94,309

* 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, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.

***Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.

	Parent Company 2012						
	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*	₱18,043	₱9,034	₱–	₱–	₱–	₱–	₱27,077
Investments and trading securities**	–	51	48	2,296	2,642	18,226	23,263
Loans and receivables	–	10,808	9,059	5,109	4,710	39,784	69,470
	₱18,043	₱19,893	₱9,107	₱7,405	₱7,352	₱58,010	₱119,810
Financial Liabilities							
Deposit liabilities***	₱–	₱8,658	₱13,630	₱11,450	₱3,267	₱53,903	₱90,908
Bills and acceptances payable	–	3,868	1,669	–	–	35	5,572
Subordinated debt	–	–	–	–	–	2,750	2,750
Other liabilities	733	16	29	31	3	3,458	4,270
Contingent liabilities	–	464	777	595	776	(1,098)	1,514
	₱733	₱13,006	₱16,105	₱12,076	₱4,046	₱59,048	₱105,014

* 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, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.

***Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.

	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**	–	597	302	1,403	1,447	26,374	30,123
Loans and receivables	4	7,539	6,435	3,891	1,002	29,685	48,556
	₱8,819	₱15,966	₱7,499	₱5,703	₱2,588	₱60,894	₱101,469
Financial Liabilities							
Deposit liabilities***	₱–	₱2,923	₱3,809	₱2,214	₱2,787	₱72,283	₱84,016
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	₱5,353	₱3,948	₱2,497	₱2,942	₱77,740	₱92,946

* 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, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.

***Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.

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, 2012 and 2011, ₱29.7 billion and ₱18.9 billion, respectively, or 43.00% and 39.00%, respectively, 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 sovereign-issued securities that have high market liquidity. 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, 2012 and 2011. With the above presented liquidity profile, the Group remains to be inhibited from liquidity risk that it can't adequately manage.

<u>Market Risk</u>

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 sensitive positions held and to estimate the potential economic loss based on 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 500 bps increase in Philippine peso interest rates and 300 bps increase in US dollar interest rates (based on the uniform stress testing framework of BSP).

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 5 days. The use of a 99.00% confidence level means that within a five-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 investment positions held for trading. 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 the Treasurer, Chief Risk Officer and the President, and further to the Board through the RMC.

The VaR below pertains to interest rate risk of the Parent Company's trading books.

	2012	2011
Year-end VaR	**₱47,534**	₱32,347
Average VaR	**66,490**	155,428
Highest VaR	**166,946**	318,115
Lowest VaR	**13,725**	22,383

The year-end VaR for 2012 was based on a portfolio position size equal to ₱2.46 billion with an average yield of 4.18% and average maturity of 10 years and 3 months. The year-end VaR for 2011 had a position size equal to ₱5.83 billion with an average yield of 4.41 % and average maturity of six years and six months. Note though that the 2012 VaR is on a 5 day horizon while 2011 VaR is on a 3 day horizon. The Parent Company shifted from using a 3-day VaR to a 5-day VaR at the beginning of 2012 to measure more accurately the market risk in its trading portfolio.

In 2012, the Parent Company bought preferred shares for its trading portfolio. The VaR methodology is likewise applied in measuring the potential loss arising from the price fluctuations of these shares at a 99.00% confidence level with a 10-day horizon. Year-end VaR for the preferred shares amounted to ₱58.84 million while averaging ₱58.53 million throughout the year. Highest and lowest VaR recorded, on the other hand, was ₱60.11 million and ₱55.69 million, respectively.

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 2012 and 2011, 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.

	2012	2011
Year-end VaR	₱1,826	₱1,484
Average VaR	2,073	6,547
Highest VaR	8,514	31,433
Lowest VaR	9	1

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. In the FCDU books, BSP requires banks to match the foreign currency assets with the foreign currency liabilities. Thus, 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 limits regarding the intraday trading and 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, 2012 and 2011:

	2012		
	USD	Other Currencies	Total
Assets			
Gross FX assets	$453,371	$909	$454,280
Contingent FX assets	81,300	–	81,300
	534,671	909	535,580
Liabilities			
Gross FX liabilities	413,440	–	413,440
Contingent FX liabilities	127,700	–	127,700
	541,140	–	541,140
Net exposure	($6,469)	$909	($5,560)

	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

The table below indicates the currencies to which the Parent Company had significant exposures as of December 31, 2012, 2011 and 2010 (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.

	2012			
Foreign currency appreciates (depreciates)	**USD**	**GBP**	**EUR**	**JPY**
+10.00%	**(₱26.56)**	**₱.56**	**₱1.2**	**₱2.05**
-10.00%	**26.56**	**(.56)**	**(1.2)**	**(2.05)**

	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)

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 Group's net interest income. The short-term nature of its assets and liabilities reduces the exposure of its net interest income to such risks.

The Parent Company employs 'Gap Analysis' on a monthly basis 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. Non-maturing deposits are treated as non repricing liabilities by the Parent Company. The re-pricing gap is calculated by first distributing the assets and liabilities contained in the Group'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 Group'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, 2012 and 2011:

	2012				
	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	3.55%	–	–	–	–
Loans and receivables	5.48%	5.34%	7.53%	6.92%	12.72%
Investment securities	–	–	–	–	4.92%
Financial liabilities					
Deposit liabilities	3.32%	3.60%	3.63%	4.60%	5.40%
Bills payable	0.81%	0.78%	–	–	–
Subordinated debt	–	–	–	–	8.01%
FCDU					
Financial assets					
Cash and cash equivalents	0.83%	–	–	–	–
Loans and receivables	3.02%	5.23%	4.07%	2.66%	7.56%
Investment securities	4.23%	–	–	–	5.11%
Financial liabilities					
Deposit liabilities	1.57%	1.52%	1.83%	1.60%	2.02%

	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%

The following table sets forth the asset-liability gap position of the Parent Company as of December 31, 2012 and 2011 (amounts in millions):

	2012					
	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	₱8,815	₱–	₱–	₱–	₱–	₱8,815
Loans and receivables	21,932	5,876	2,847	5,470	15,613	51,738
Investment securities	51	–	–	–	8,585	8,636
Total financial assets	30,798	5,876	2,847	5,470	24,198	69,189
Financial liabilities						
Deposit liabilities	30,953	5,351	981	417	3,261	40,963
Bills and acceptances payable	3,047	1,669	–	–	–	4,716
Other liabilities	–	–	–	–	–	–
Subordinated debt	–	–	–	–	2,750	2,750
Contingent liabilities	84	777	145	273	15	1,294
Total financial liabilities	34,084	7,797	1,126	690	6,026	49,723
Asset-liability gap	(₱3,286)	(₱1,921)	₱1,721	₱4,780	₱18,172	₱19,466

	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

With the above re-pricing gap, the Group could expect negative returns on the first three months from the end of 2012 should there be an upward movement in interest rates. Such movement, on the other hand, shall be tapered by favorable movements on the succeeding months until the end of 2013, given that there is more interest earning assets than interest bearing liabilities expected to re-price within the remaining 9-month period.

The Group 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 Group'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 (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	2012	2011	2010
+100bps	(₱24.8)	(₱53.3)	₱33.7
-100bps	24.8	53.3	(33.7)

Market risk weighting as of December 31, 2012 and 2011

The table below shows the different market risk-weighted assets (in millions) of the Group and the Parent Company using the standardized approach:

Type of Market Risk Exposure	2012	2011
Interest Rate Exposures	₱5,243	₱2,975
Foreign Exposures	266	28
Equity Exposures	27	177
	₱5,536	₱3,180

Operational Risk

Operational risk is the loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal, compliance and reputational risks but excludes strategic risk.

Adopting the Basic Indicator Approach in computing, below is the total operational risk-weighted assets of the Group and Parent Company (amounts in millions).

	2012	2011
Consolidated	₱12,973	₱11,916
Parent Company	12,229	11,020

Other Risk Exposures

Group risk exposures other than credit, market, liquidity and operational, while existent, are deemed insignificant relative to the mentioned risks and if taken in isolation. Hence, management of these risks are instead collectively performed and made an integral part of the Group's internal capital adequacy assessment process (ICAAP) and enterprise risk management initiatives.

The last internal capital adequacy assessment results of the Group show that these other risks remain insignificant to pose a threat on the Group's capacity to comply with the minimum capital adequacy ratio of 10% as prescribed by BSP.

5. Fair Value Measurement

The table below presents a comparison by category of carrying amounts and estimated fair values of the Group's and Parent Company's financial instruments as of December 31, 2012 and 2011:

	Consolidated			
	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and other cash items	₱3,235,161	₱3,235,161	₱2,243,104	₱2,243,104
Due from BSP	21,855,275	21,855,275	11,315,202	11,315,202
Due from other banks	1,637,917	1,637,917	1,739,088	1,739,088
IBLR and SPURA	582,648	582,648	7,723,094	7,723,094
Loans and receivables				
Receivables from customers				
Corporate lending	33,274,474	34,128,059	17,591,351	20,673,463
Consumer lending	30,086,073	32,641,044	25,588,491	25,116,867
Residential mortgages	6,525,671	6,841,403	3,625,887	2,440,529
Unquoted debt securities	207,937	207,937	218,231	218,231
Other Receivables	1,098,586	1,098,586	1,062,839	1,062,839
	71,192,741	74,917,029	48,086,799	49,511,929
	98,503,742	102,228,030	71,107,287	72,532,417
Financial assets at FVTPL				
Government securities	1,805,939	1,805,939	3,903,332	3,903,332
Private bonds	1,206,722	1,206,722	1,839,930	1,839,930
Equity securities	1,247,664	1,247,664	88,361	88,361
	4,260,325	4,260,325	5,831,623	5,831,623
Financial assets at FVOCI				
Quoted equity securities	6,735	6,735	1,510	1,510
Unquoted equity securities	3,247	3,247	75,734	75,734
	9,982	9,982	77,244	77,244
Investment securities at amortized cost				
Government securities	8,253,247	8,862,425	8,774,626	9,979,435
Private bonds	1,367,258	1,887,344	3,172,366	3,107,551
	9,620,505	10,749,769	11,946,992	13,086,986
	₱112,394,554	₱117,248,106	₱88,963,146	₱91,528,270
Financial Liabilities				
Deposit liabilities				
Demand	₱34,129,088	₱34,129,088	₱21,787,662	₱21,787,662
Savings	16,238,463	16,238,463	11,476,140	11,476,140
Time	39,317,476	39,510,418	41,779,095	41,777,683
LTNCD	1,523,778	1,755,861	1,626,638	1,655,245
	91,208,805	91,633,830	76,669,535	76,696,730
Bills and acceptances payable	5,571,387	5,571,387	2,163,188	2,163,188
Accrued interest and other expenses	925,153	925,153	709,252	709,252
Cashier's checks and demand draft payable	714,398	714,380	452,569	452,569
Subordinated debt	2,863,751	3,550,031	2,861,282	3,556,714
Other liabilities	923,373	923,373	690,452	690,452
	₱102,206,867	₱103,318,154	₱83,546,278	₱84,268,905

	Parent Company			
	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and other cash items	₱3,180,497	₱3,180,497	₱2,190,159	₱2,190,159
Due from BSP	21,789,239	21,789,239	11,306,441	11,306,441
Due from other banks	1,524,815	1,524,815	1,527,896	1,527,896
IBLR and SPURA	582,648	582,648	7,723,094	7,723,094
Loans and receivables				
Receivables from customers				
Corporate lending	33,274,474	34,128,059	18,547,882	20,673,463
Consumer lending	27,654,178	30,787,378	24,626,092	25,110,946
Residential mortgages	6,525,613	6,841,403	3,625,868	2,440,529
Unquoted debt securities	207,869	207,869	217,610	217,610
Other Receivables	1,807,816	2,106,755	1,062,290	1,062,290
	69,469,950	74,071,464	48,079,742	49,504,838
	96,547,149	101,148,663	70,827,332	72,252,428
Financial assets at FVTPL				
Government securities	1,805,939	1,805,939	3,903,332	3,903,332
Private bonds	1,206,722	1,206,722	1,839,930	1,839,930
Equity securities	1,247,664	1,247,664	88,361	88,361
	4,260,325	4,260,325	5,831,623	5,831,623
Financial assets at FVOCI				
Quoted equity securities	6,735	6,735	1,510	1,510
Unquoted equity securities	3,247	3,247	75,734	75,734
	9,982	9,982	77,244	77,244
Investment securities at amortized cost				
Government securities	8,253,247	8,862,425	8,774,626	9,979,435
Private bonds	1,366,848	1,887,344	3,172,366	3,107,551
	9,620,095	10,749,769	11,946,992	13,086,986
	₱110,437,551	₱116,168,739	₱88,683,191	₱91,248,281
Financial Liabilities				
Deposit liabilities				
Demand	₱34,271,229	₱34,271,229	₱21,714,348	₱21,714,348
Savings	13,285,003	13,285,003	10,469,622	10,469,622
Time	39,438,612	39,662,110	41,779,095	41,777,683
LTNCD	1,523,778	1,755,861	1,626,638	1,655,245
	88,518,622	88,974,203	75,589,703	75,616,898
Bills and acceptances payable	5,571,387	5,571,387	2,160,822	2,160,822
Accrued interest and other expenses	726,052	726,052	690,275	690,275
Cashier's checks and demand draft payable	714,398	714,398	452,569	452,569
Subordinated debt	2,750,000	3,439,083	2,750,000	3,376,081
Other liabilities	923,373	923,373	529,248	529,248
	₱99,203,832	₱100,348,496	₱82,172,617	₱82,825,893

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. IBLR and SPURA 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 **-** 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 information available to determine fair values and there are no indicators that cost might not be representative of fair value.

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:

	2012			2011		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Financial assets at FVTPL	**₱4,260,325**	**₱–**	₱–	₱5,831,623	₱–	₱–
Financial assets at FVTOCI	**6,735**	**–**	–	1,510	–	–
Derivative assets (liabilities)	–	**(56,368)**	–	–	449	–

During the years ended December 31, 2012 and 2011, 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, 2012 and 2011:

	2012	2011
Notional amount	**$209,000**	$234,295
Derivative assets (liabilities)	**(₱56,368)**	₱449

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

	2012	2011
Derivative assets (liabilities) at beginning of year	**₱449**	(₱35,980)
Changes in fair value of derivatives	**(8,324,636)**	(62,977)
Fair value of settled instruments	**8,267,819**	99,406
Derivative assets (liabilities) at end of year	**(₱56,368)**	₱449

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 over-the-counter (OTC) 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 years ended December 31, 2012 and 2011 follow (amounts in millions):

	2012					
	Retail Banking	Corporate Banking	Consumer Banking	Treasury and Trust	Elimination Items	Total Bankwide
Statement of Income						
Net Interest Income						
Third Party	₱1,702	₱315	₱3,676	₱90	₱305	₱6,088
Intersegment	30	321	–	–	(351)	–
	1,732	636	3,676	90	(46)	6,088
Noninterest Income	726	72	1,554	1,353	(9)	3,696
Revenue - Net of Interest Expense	2,458	708	5,230	1,443	(55)	9,784
Noninterest Expense	(2,668)	(394)	(4,024)	(265)	(441)	(7,792)
Income Before Income Tax	(210)	314	1,206	1,178	(496)	1,992
Provision for Income Tax	(27)	(11)	379	(29)	(488)	(176)
Net Income for the Year	(₱237)	₱303	₱1,585	₱1,149	(₱984)	₱1,816
Statement of Financial Position						
Total Assets	₱22,152	₱35,424	₱39,246	₱13,067	₱11,514	₱121,403
Total Liabilities	94,377	15,318	1,088	7,464	(14,165)	104,082
Statement of Income						
Depreciation and Amortization	328	19	141	25	48	561
Provision for Impairment and Credit Losses	–	42	1,514	–	(25)	1,531

	2011					
	Retail Banking	Corporate Banking	Consumer Banking	Treasury and 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	(77)	2,391
Revenue - Net of Interest Expense	2,062	672	3,961	617	(8)	7,304
Noninterest Expense	(1,946)	(289)	(2,814)	(230)	85	(5,194)
Income Before Income Tax	116	383	1,147	387	77	2,110
Provision for Income Tax	(38)	(27)	(152)	(74)	(88)	(379)
Net Income for the Year	₱78	₱356	₱995	₱313	(₱11)	₱1,731
Statement of Financial Position						
Total Assets	₱17,478	₱25,190	₱26,822	₱11,489	₱15,028	₱96,006
Total Liabilities	78,687	14,654	1,011	3,846	(13,416)	84,782
Statement of Income						
Depreciation and Amortization	189	18	158	17	19	401
Provision for Impairment and Credit Losses	–	9	920	–	(197)	732

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

	2010					
	Retail Banking	Corporate Banking	Consumer Banking	Treasury and 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	₱25	₱83,777
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 Impairment and Credit Losses	₱-	₱171	₱860	₱-	₱521	₱1,552

Noninterest income consists of service charges, fees and commissions, gain on sale of assets, gain on asset foreclosure and dacion transactions, trading and securities gain, gain on sale (loss on derecognition) of investment securities at amortized cost, 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 FinMan Rural Bank, Inc. (FRBI)
On January 26, 2012, the Board of Directors of the Parent Company approved the acquisition of the outstanding shares of FRBI offering deposit-taking, rural credit, and consumer lending services to the public. On February 9, 2012, the Parent Company entered into a Memorandum of Understanding with the majority shareholders of FRBI to acquire all of the outstanding shares of FRBI.

On June 20, 2012, the BSP approved the acquisition of up to 100.00% of the total outstanding shares of FRBI. On July 11, 2012, the Parent Company obtained control of FRBI through the purchase of 83.17% of the outstanding capital stock of FRBI for ₱34.10 million.

The Parent Company has elected to measure the non-controlling interest in the acquiree at fair value.

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	₱243
Due from BSP	376
Due from other banks	13,779
Investment securities at amortized cost	410
Loans and receivables	6,005
Property and equipment	7,219
Other assets	315
	28,347
Liabilities	
Deposit liabilities	9,895
Accrued taxes, interest and other expenses	383
Other liabilities	547
	10,825
Fair value of net assets acquired	**₱17,522**

The goodwill recognized by the Parent Company can be attributed to the synergy potentially to be gained by the microfinance business from the planned integration of GBI and FRBI.

Consideration transferred	₱34,098
Non-controlling interest measured at fair value	6,902
Fair value of the net assets acquired	(17,522)
Goodwill	₱23,478

Analysis of cash flows on acquisition:

Consideration transferred	₱34,098
Net cash acquired with the subsidiary*	(14,398)
Net cash outflow (included in cash flows from investing activities)	₱19,700

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

From the date of acquisition to December 31, 2012, the total operating income and net loss of FRBI consolidated to the Group amounted to ₱3.00 million and ₱0.29 million, respectively.

If the acquisition had taken place at the beginning of the year, the Group's total operating income would have increased by ₱2.03 million while net income before tax would have increased by ₱0.02 million.

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.

On August 12, 2011, the BSP approved the acquisition of up to 100.00% 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 non-controlling shareholders of GBI. As of December 31, 2012 and 2011, the Parent Company had 96.53% and 90.79% ownership in GBI, respectively.

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 fair value.

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 transferred	₱158,548
Non-controlling interest measured at fair value	16,452
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:

Consideration transferred	₱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.

8. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Interbank loans receivable	**₱582,648**	₱533,094	**₱582,648**	₱533,094
Securities purchased under resale agreements	–	7,190,000	–	7,190,000
	₱582,648	₱7,723,094	**₱582,648**	₱7,723,094

As of December 31, 2012, there were no outstanding SPURA. 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	
	2012	2011	2012	2011
Financial assets at FVTPL	₱4,260,325	₱5,831,623	₱4,260,325	₱5,831,623
Financial assets at FVTOCI	9,982	77,244	9,982	77,244
Investment securities at amortized cost	9,620,505	11,946,992	9,620,095	11,946,992
	₱13,890,812	₱17,855,859	₱13,890,402	₱17,855,859

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

	Consolidated		Parent Company	
	2012	2011	2012	2011
Government securities	₱1,805,939	₱3,903,332	₱1,805,939	₱3,903,332
Private bonds	1,206,722	1,839,930	1,206,722	1,839,930
Equity securities	1,247,664	88,361	1,247,664	88,361
	₱4,260,325	₱5,831,623	₱4,260,325	₱5,831,623

On June 25, 2012, the BOD approved the change in the Group's business model. Management deemed it necessary to change the way it manages its investment securities because of significant changes in its strategic plans, funding structure and cash flow profile brought about by the IPO and its branch expansion program. Accordingly, the Parent Company made certain reclassifications pursuant to the new business model effective July 1, 2012, resulting in ₱711.89 million of 'Trading and securities gain' in the statement of income representing the difference between the aggregate amortized cost of certain securities amounting to ₱5.58 billion and their aggregate fair value of ₱6.29 billion at the reclassification date. Refer to Note 3 for the discussion on the change in the business model.

The net unrealized gains (losses) on financial assets at FVPTL as at December 31, 2012 and 2011 that are included in 'Trading and securities gain' in the statements of income amounted to ₱104.86 million and (₱9.63 million), respectively.

Upon adoption of PFRS 9 effective January 1, 2011, the Parent Company is allowed to classify only equity securities not held for trading as financial assets at FVTOCI. As of December 31, 2012 and 2011, financial assets at FVTOCI of the Group and the Parent Company consist of:

	2012	2011
Quoted equity securities	₱6,735	₱1,510
Unquoted equity securities	3,247	75,734
	₱9,982	₱77,244

The Group has designated the above equity investments at FVTOCI because they are held for long-term investments rather than for trading. The unquoted equity securities pertain to investments in shares of stock not listed on the PSE.

During 2012 and 2011, no dividends were recognized on these equity investments and no cumulative gain or loss was transferred within equity.

Investment securities at amortized cost of the Group and the Parent Company as of December 31, 2012 and 2011 consist of:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Government securities	₱8,253,247	₱8,774,626	₱8,253,247	₱8,774,626
Private bonds	1,367,258	3,172,366	1,366,848	3,172,366
	₱9,620,505	₱11,946,992	₱9,620,095	₱11,946,992

Peso-denominated government bonds bear nominal annual interest rates ranging from 5.38% to 12.75% in 2012, 5.75% to 13.00% in 2011 and 4.63% to 17.50% in 2010, while foreign currency-denominated bonds bear nominal interest ranging from 4.00% to 10.63% in 2012, 3.88% to 9.88% in 2011 and 4.00% to 10.63% in 2010.

In 2012, the Parent Company sold government securities classified as investment securities at amortized cost with carrying amount of ₱1.29 billion and recognized a gain amounting to ₱276.88 million presented as 'Gain on sale of investment securities at amortized cost' in the statement of income. The sale was contemplated to secure financing for the Parent Company's capital expenditures on branch expansion. The management established that the sale is consistent with its business model of managing financial assets to collect contractual cash flows.

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 ₱44.44 million of 'Loss on derecognition of investment securities at amortized cost' and ₱9.93 million loss on derecognition of financial assets at FVTPL included in 'Trading and securities gain' 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. Refer to Note 3 for the judgments made related to the sale and derecognition of investments securities at amortized cost.

Interest income on trading and investment securities follows:

	Consolidated		Parent Company		
	2012	2011	2012	2011	2010
Financial assets at FVTPL	₱185,963	₱444,520	₱185,963	₱444,520	₱116,678
Investment securities at amortized cost	656,299	664,175	656,298	664,175	–
AFS investments	–	–	–	–	953,383
	₱842,262	₱1,108,695	₱842,261	₱1,108,695	₱1,070,061

Trading and securities gain consists of:

	Consolidated		Parent Company		
	2012	2011	2012	2011	2010
Financial assets at FVTPL	₱988,110	₱447,188	₱988,110	₱447,188	₱20,844
Investment securities at amortized cost	276,883	(44,440)	276,883	(44,440)	–
AFS investments	–	–	–	–	1,134,413
	₱1,264,993	₱402,748	₱1,264,993	₱402,748	₱1,155,257

10. Loans and Receivables

Loans and receivables consist of:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Receivables from customers				
Corporate lending	₱34,323,221	₱19,508,868	₱34,323,221	₱20,508,868
Consumer lending	33,239,095	28,380,401	30,785,466	27,374,514
Residential mortgages	6,467,860	3,791,747	6,467,802	3,791,747
	74,030,176	51,681,016	71,576,489	51,675,129
Unearned discounts	(1,645,390)	(2,241,292)	(1,645,097)	(2,241,292)
	72,384,786	49,439,724	69,931,392	49,433,837
Unquoted debt securities				
Government securities	₱33,924	₱50,618	₱33,856	₱49,997
Private bonds	341,983	339,448	341,983	339,448
	375,907	390,066	375,839	389,445
Other receivables				
Accounts receivable	666,989	539,924	1,482,733	539,796
Accrued interest receivable	₱716,730	₱667,477	₱632,578	₱667,451
Sales contract receivable	202,394	159,651	180,032	159,256
	1,586,113	1,367,052	2,295,343	1,366,503
	74,346,806	51,196,842	72,602,574	51,189,785
Allowance for credit and impairment losses (Note 15)	(3,154,065)	(3,110,043)	(3,132,624)	(3,110,043)
	₱71,192,741	₱48,086,799	₱69,469,950	₱48,079,742

Credit card receivables, under consumer lending, amounted to ₱16.28 billion and ₱12.71 billion as of December 31, 2012 and 2011, respectively.

Accounts receivable of the Parent Company includes the Parent Company's deposits for future stock subscription in GBI and FRBI totaling ₱820.00 million as of December 31, 2012. In 2012, the Parent Company converted its receivables from GBI amounting to ₱700.00 million into deposits for future stock subscription. In addition, in 2012, the Parent Company had additional investment in FRBI amounting to ₱120.00 million also considered as deposits for future stock subscription. The application for the increase in authorized capital stock to which these deposits for future stock subscriptions will be applied is pending approval by the BSP, and has yet to be filed with the SEC as of December 31, 2012.

Receivables from customers consist of:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Loans and discounts	₱70,940,952	₱48,844,902	₱68,487,265	₱48,839,015
Customers' liabilities under letters of credit/trust receipts	1,763,323	1,927,772	1,763,323	1,927,772
Bills purchased	1,325,901	908,342	1,325,901	908,342
	₱74,030,176	₱51,681,016	₱71,576,489	₱51,675,129

The Parent Company entered into a memorandum of understanding with FDC and Filinvest Land, Inc. (FLI), related parties, by which the former agreed to purchase, on a without recourse basis, the installment contracts receivable from FDC and FLI. On various dates in 2004 and 2012, several deeds of assignment were executed wherein FDC and FLI sold, assigned and transferred without recourse to the Parent Company all the rights, titles and interest in various loan accounts and the related mortgages. During 2012, the total receivables purchased by the Parent Company without recourse under the terms of the foregoing assignment agreement amounted to ₱1.81 billion. Outstanding receivables purchased amounted to ₱1.66 billion and ₱77.69 million as of December 31, 2012 and 2011, respectively. The Parent Company's acquisition cost of the installment contracts receivable approximates fair value at the acquisition date. In 2012, the Parent Company and FLI also entered into an account servicing and collection agreement wherein the Parent Company would pay service fees equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company related to its purchase of installment contracts receivable.

A reconciliation of the allowance for impairment and credit losses for loans and receivables per class as of December 31, 2012 follows:

	Consolidated				
	2012				
	Corporate Lending	Consumer Lending	Residential Mortgages	Others	Total
At January 1	₱1,071,459	₱1,561,114	₱1,421	₱476,049	₱3,110,043
Provision for (reversal of) impairment and credit losses (Note 15)	38,357	1,256,863	(1,421)	179,448	1,473,247
Reclassification from due from BSP and other assets	–	36,667	–	–	36,667
Write-off (Note 15)	–	(1,424,715)	–	–	(1,424,715)
Interest accrued on impaired loans	(41,177)	–	–	–	(41,177)
At December 31	₱1,068,639	₱1,429,929	₱–	₱655,497	₱3,154,065
Specific impairment	₱632,691	₱–	₱–	₱–	₱632,691
Collective impairment	435,948	1,429,929	–	655,497	2,521,374
	₱1,068,639	₱1,429,929	₱–	₱655,497	₱3,154,065
Gross amount of individually impaired loans	₱933,323	₱–	₱–	₱–	₱933,323

	Parent Company				
	2012				
	Corporate Lending	Consumer Lending	Residential Mortgages	Others	Total
At January 1	₱1,071,459	₱1,561,114	₱1,421	₱476,049	₱3,110,043
Provision for (reversal of) impairment and credit losses (Note 15)	38,357	1,235,422	(1,421)	179,448	1,451,806
Reclassification from due from BSP and other assets	–	36,667	–	–	36,667
Write-off (Note 15)	–	(1,424,715)	–	–	(1,424,715)
Interest accrued on impaired loans	(41,177)	–	–	–	(41,177)
At December 31	₱1,068,639	₱1,408,488	₱–	₱655,497	₱3,132,624
Specific impairment	₱632,691	₱–	₱–	₱–	₱632,691
Collective impairment	435,948	1,408,488	–	655,497	2,499,993
	₱1,068,639	₱1,408,488	₱–	₱655,497	₱3,132,624
Gross amount of individually impaired loans	₱933,323	₱–	₱–	₱–	₱933,323

A reconciliation of the allowance for the impairment and credit losses of loans and receivables per class for the Group and Parent Company as of December 31, 2011 follows:

	2011				
	Corporate Lending	Consumer Lending	Residential Mortgages	Others	Total
At January 1	₱1,169,698	₱1,743,187	₱2,453	₱565,136	₱3,480,474
Provision for impairment and credit losses (Note 15)	30,709	663,339	–	–	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	₱1,561,114	₱1,421	₱476,049	₱3,110,043
Specific impairment	₱812,909	₱–	₱–	₱–	₱812,909
Collective impairment	258,550	1,561,114	1,421	476,049	2,297,134
	₱1,071,459	₱1,561,114	₱1,421	₱476,049	₱3,110,043
Gross amount of individually impaired loans	₱1,415,993	₱–	₱–	₱–	₱1,415,993

The Parent Company took possession of various properties previously held as collateral with an estimated value of ₱357.76 million in 2012, ₱358.28 million in 2011 and ₱321.62 million in 2010 (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					
	2012			2011		
	Specific Impairment	Collective Impairment	Total	Specific Impairment	Collective Impairment	Total
At January 1	₱812,909	₱2,297,134	₱3,110,043	₱941,857	₱2,538,617	₱3,480,474
Provision for (reversal of) impairment and credit losses	(139,041)	1,612,288	1,473,247	–	694,048	694,048
Reclassification from due from BSP and other assets	–	36,667	36,667	56,347	–	56,347
Write-off	–	(1,424,715)	(1,424,715)	(156,289)	(935,531)	(1,091,820)
Interest accrued on impaired loans	(41,177)	–	(41,177)	(29,006)	–	(29,006)
At December 31	₱632,691	₱2,521,374	₱3,154,065	₱812,909	₱2,297,134	₱3,110,043

	Parent Company					
	2012			2011		
	Specific Impairment	Collective Impairment	Total	Specific Impairment	Collective Impairment	Total
At January 1	₱812,909	₱2,297,134	₱3,110,043	₱941,857	₱2,538,617	₱3,480,474
Provision for (reversal of) impairment and credit losses	(139,041)	1,590,847	1,451,806	–	694,048	694,048
Reclassification from due from BSP and other assets	–	36,667	36,667	56,347	–	56,347
Write-off	–	(1,424,715)	(1,424,715)	(156,289)	(935,531)	(1,091,820)
Interest accrued on impaired loans	(41,177)	–	(41,177)	(29,006)	–	(29,006)
At December 31	₱632,691	₱2,499,933	₱3,132,624	₱812,909	₱2,297,134	₱3,110,043

Interest income on loans and receivables for the years ended December 31, 2012 and 2011 consist of:

	Consolidated		Parent Company		
	2012	2011	2012	2011	2010
Receivables from customers	₱6,772,393	₱5,389,982	₱6,625,128	₱5,319,707	₱4,478,792
Unquoted debt securities	21,951	31,242	21,951	31,224	23,754
Interest accrued on impaired loans	41,177	29,006	41,177	29,006	15,535
	₱6,835,521	₱5,450,230	₱6,688,256	₱5,379,937	₱4,518,081

BSP Reporting

Of the total receivables from customers of the Parent Company as of December 31, 2012, 2011 and 2010, 34.7%, 37.9% and 38.9%, 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 2012, 2011 and 2010, 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 2012, 2011 and 2010, respectively.

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

	Consolidated				Parent Company			
	2012		2011		2012		2011	
	Gross Amount	%	Gross Amount	%	Gross Amount	%	Gross Amount	%
Loans secured by:								
Chattel	₱8,215,319	26.45	₱7,469,940	35.66	₱8,215,319	26.64	₱ 7,464,006	35.64
Real estate	10,683,691	34.40	8,640,561	41.25	10,519,179	34.03	8,640,606	41.26
Hold-out on deposit	594,035	1.91	1,063,992	5.08	594,035	1.92	1,064,001	5.08
Others	11,561,516	37.24	3,774,354	18.01	11,561,516	37.41	3,774,303	18.02
	31,054,561	42.90	20,948,847	42.37	30,890,049	44.19	20,942,916	42.37
Unsecured	41,330,225	57.10	28,490,877	57.63	39,041,343	55.81	28,490,921	57.63
	₱72,384,786	100.00	₱49,439,724	100.00	₱69,931,392	100.00	₱49,433,837	100.00

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

	Consolidated				Parent Company			
	2012		2011		2012		2011	
	Gross Amount	%	Gross Amount	%	Gross Amount	%	Gross Amount	%
Personal consumption	₱26,775	36.99	₱20,616	41.70	₱26,714	38.20	₱ 20,610	41.69
Wholesale and retail trade	10,436	14.42	8,236	16.66	10,295	14.72	8,236	16.66
Real estate, renting and business activity	6,105	8.43	4,052	8.20	6,033	8.63	4,052	8.20
Financial intermediaries	4,570	6.31	5,349	10.82	4,499	6.43	5,349	10.82
Manufacturing	4,344	6.00	3,531	7.14	4,311	6.16	3,531	7.14
Transport, storage and communications	1,346	1.86	1,365	2.76	1,338	1.91	1,365	2.76
Agriculture, fisheries and forestry	1,150	1.59	519	1.05	405	0.58	519	1.05
Others	17,659	24.40	5,772	11.67	16,336	23.37	5,772	11.68
	₱72,385	100.00	₱49,440	100.00	₱69,931	100.00	₱49,434	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. Subsequently, the BSP issued BSP Circular No. 772, which requires banks to compute their net NPLs by deducting the specific allowance for credit losses on the total loan portfolio from the gross NPLs. The specific allowance for credit losses shall not be deducted from the total loan portfolio in computing the NPL ratio.

As of December 31, 2012 and 2011, NPLs of the Group and the Parent Company as reported to the BSP follow:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Gross NPLs	₱3,998,592	₱3,591,747	₱3,405,266	₱3,187,994
Deductions as required by the BSP*	(2,452,419)	(1,447,127)	(1,943,520)	(1,302,365)
	₱1,546,173	₱2,144,620	₱1,461,746	₱1,885,629

* Deductions in 2011 and in prior years represent receivables classified as loss by the BSP which are fully covered by allowance for credit losses. Deductions in 2012 represent specific allowance for credit losses on the total loan portfolio.

As of December 31, 2012 and 2011, secured and unsecured NPLs of the Group and the Parent Company as reported to the BSP follow:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Secured	₱2,046,874	₱1,452,823	₱1,887,266	₱1,371,270
Unsecured	1,951,718	2,138,924	1,518,000	1,816,724
	₱3,998,592	₱3,591,747	₱3,405,266	₱3,187,994

11. Property and Equipment

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

	2012					
	Land	Buildings	Construction in Progress	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
As of January 1	₱313,981	₱134,773	₱537,792	₱1,360,394	₱947,192	₱3,294,132
Additions	5,131	195,622	55,017	247,834	718,020	1,221,624
Acquisitions from business combination	6,532	466	–	221	–	7,219
Reclassification	–	592,809	(592,809)	–	–	–
Disposals	(26,952)	(3,736)	–	(79,739)	(50,510)	(160,937)
As of December 31	298,692	919,934	–	1,528,710	1,614,702	4,362,038
Accumulated Depreciation and Amortization						
As of January 1	–	37,531	–	883,914	424,970	1,346,415
Depreciation and amortization	–	16,179	–	203,172	125,616	340,967
Disposals	–	–	–	(43,695)	(22,338)	(66,033)
As of December 31	–	53,710	–	1,043,391	524,248	1,621,349
Net Book Value	₱298,692	₱866,224	₱–	₱485,319	₱1,090,454	₱2,740,689

	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:

	2012					
	Land	Buildings	Construction in Progress	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
As of January 1	₱263,804	₱70,117	₱537,792	₱1,288,664	₱888,596	₱3,048,973
Additions	–	144,592	55,017	243,696	710,411	1,153,716
Reclassification	–	592,809	(592,809)	–	–	–
Disposals	–	–	–	(27,095)	–	(27,095)
As of December 31	263,804	807,518	–	1,505,265	1,599,007	4,175,594
Accumulated Depreciation and Amortization						
As of January 1	–	20,883	–	883,914	410,222	1,315,019
Depreciation and amortization	–	11,040	–	188,155	110,449	309,644
Disposals	–	–	–	(21,601)	–	(21,601)
As of December 31	–	31,923	–	1,050,468	520,671	1,603,062
Net Book Value	₱263,804	₱775,595	₱–	₱454,797	₱1,078,336	₱2,572,532

	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

As of December 31, 2012 and 2011, the cost of fully depreciated property and equipment still in use by the Parent Company amounted to ₱389.24 million and ₱383.63 million, respectively.

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's cash contribution for the construction of the building was recorded in Construction in Progress account. In 2012, the construction was completed and became the new principal place of business of the Parent Company. The amounts recorded as Construction in Progress account amounting to ₱592.81 million was transferred to the Buildings account.

12. Investment Properties

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

	2012		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱928,979	₱505,500	₱1,434,479
Additions	57,112	69,694	126,806
Disposals	(189,233)	(72,297)	(261,530)
At December 31	₱796,858	₱502,897	₱1,299,755
Accumulated Depreciation and Amortization			
At January 1	₱–	₱184,044	₱184,044
Depreciation and amortization	–	51,160	51,160
Disposals	–	(16,923)	(16,923)
At December 31	–	218,281	218,281
Accumulated Impairment Losses (Note 15)			
At January 1	139,204	26,077	165,281
Provision for impairment losses	32,408	12,155	44,563
Disposals	(41,884)	(24,134)	(66,018)
At December 31	129,728	14,098	143,826
Net Book Value	₱667,130	₱270,518	₱937,648

	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:

	2012		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱751,710	₱459,648	₱1,211,358
Additions	36,415	65,874	102,289
Disposals	(139,264)	(62,687)	(201,951)
At December 31	₱648,861	₱462,835	₱1,111,696
Accumulated Depreciation and Amortization			
At January 1	₱–	₱179,389	₱179,389
Depreciation and amortization	–	44,428	44,428
Disposals	–	(15,931)	(15,931)
At December 31	–	207,886	207,886
Accumulated Impairment Losses (Note 15)			
At January 1	139,204	26,663	165,867
Provision for impairment losses	30,887	12,155	43,042
Disposals	(13,980)	(21,454)	(35,434)
At December 31	156,111	17,364	173,475
Net Book Value	₱492,750	₱237,585	₱730,335

	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

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 aggregate fair value of the investment properties of the Group amounted to ₱1.42 billion and ₱1.40 billion as of December 31, 2012 and 2011, respectively. The aggregate fair value of the investment properties of the Parent Company amounted to ₱1.05 billion and ₱1.18 billion as of December 31, 2012 and 2011, 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, 2012 and 2011, the carrying value of foreclosed investment properties of the Parent Company still subject to redemption period by the borrower amounted to ₱73.95 million and ₱45.96 million, respectively.

Direct operating expenses from investment properties of the Parent Company not generating rent income amounted to ₱64.75 million, ₱55.96 million and ₱64.39 million in 2012, 2011 and 2010, respectively.

13. Goodwill and Other Intangible Assets

As of December 31, 2012 and 2011, the intangible assets of the Group consist of:

	2012					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
As of January 1, 2012	₱1,293,250	₱625,400	₱154,626	₱40,433	₱546,589	₱2,660,298
From business combination	23,478	–	–	–	–	23,478
Acquisitions	–	822,000	–	–	248,169	1,070,169
As of December 31, 2012	1,316,728	1,447,400	154,626	40,433	794,758	3,753,945
Accumulated Amortization						
As of January 1, 2012	–	–	13,328	10,344	200,447	224,119
Amortization	–	–	4,311	4,043	121,621	129,975
As of December 31, 2012	–	–	17,639	14,387	322,068	354,094
Net Book Value	₱1,316,728	₱1,447,400	₱136,987	₱26,046	₱472,690	₱3,399,851

	2011					
	Goodwill	Branch Licenses	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	200,447	224,119
Net Book Value	₱1,293,250	₱625,400	₱141,298	₱30,089	₱346,142	₱2,436,179

As of December 31, 2012 and 2011, the intangible assets of the Parent Company consist of:

	2012					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
As of January 1, 2012	₱919,254	₱–	₱154,626	₱40,433	₱536,459	₱1,650,772
Acquisitions	–	822,000	–	–	246,688	1,068,688
As of December 31, 2012	919,254	822,000	154,626	40,433	783,147	2,719,460
Accumulated Amortization						
As of January 1, 2012	–	–	13,328	10,344	199,588	223,260
Amortization	–	–	4,311	4,043	117,304	125,658
As of December 31, 2012	–	–	17,639	14,387	316,892	348,918
Net Book Value	₱919,254	₱822,000	₱136,987	₱26,046	₱466,255	₱2,370,542

	2011					
	Goodwill	Branch Licenses	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

The acquisition of FinMan in 2012 resulted in goodwill amounting to ₱23.48 million which has been allocated to branch operations (see Note 7).

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.

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, 2012 and 2011, 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 rates applied to the cash flow projections is 12.71% and 12.00% in 2012 and 2011, 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		
	As of December 31				As of January 1,
	2012	2011 (As restated)	2012	2011 (As restated)	2011 (As restated)
Security deposits	**₱373,612**	₱307,197	**₱366,653**	₱307,197	₱287,822
Other repossessed assets	**134,877**	85,972	**134,877**	85,912	75,648
Card acquisition costs	**125,435**	43,320	**125,435**	43,320	45,673
Prepaid expenses	**85,023**	97,752	**78,546**	94,964	62,259
Documentary stamps	**38,490**	31,615	**32,314**	26,356	15,859
Returned cash and other cash items	**35,735**	36,559	**35,493**	36,559	54,662
Plan asset (Note 25)	**–**	24,310	**–**	41,050	40,444
Miscellaneous	**215,863**	77,790	**211,361**	39,571	171,709
	1,009,035	704,515	**984,679**	674,929	754,076
Allowance for impairment losses (Note 15)	**(51,574)**	(58,804)	**(51,574)**	(58,804)	(116,799)
	₱957,461	₱645,711	**₱933,105**	₱616,125	₱637,277

Miscellaneous assets consist mainly of suspense accounts, unissued stationery and supplies.

The movements in other repossessed assets follow:

	Consolidated		Parent Company		
	2012	2011	2012	2011	2010
Cost					
As of January 1	**₱97,933**	₱96,431	**₱97,873**	₱96,431	₱229,619
Additions	**255,475**	179,502	**255,475**	179,502	174,637
Acquired from business combination	**–**	60	**–**	–	–
Disposals	**(194,232)**	(178,060)	**(194,172)**	(178,060)	(307,825)
As of December 31	**159,176**	97,933	**159,176**	97,873	96,431
Accumulated Depreciation					
As of January 1	**11,961**	20,783	**11,961**	20,783	35,450
Depreciation and amortization	**38,945**	19,402	**38,945**	19,402	50,159
Disposals	**(26,607)**	(28,224)	**(26,607)**	(28,224)	(64,826)
As of December 31	**24,299**	11,961	**24,299**	11,961	20,783
Accumulated Impairment Losses					
As of January 1	**6,936**	8,584	**6,936**	8,584	58,658
Provisions for (reversal of) impairment losses	**12,985**	6,900	**12,985**	6,900	(1,634)
Disposals	**(4,265)**	(8,548)	**(4,265)**	(8,548)	(48,439)
As of December 31	**15,656**	6,936	**15,656**	6,936	8,585
Net Book Value	**₱119,221**	₱79,036	**₱119,221**	₱78,976	₱67,063

15. Allowance for Impairment and Credit Losses

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

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balances at the beginning of year				
Due from BSP	**₱27,016**	₱27,016	**₱27,016**	₱27,016
Loans and receivables (Note 10)	**3,110,043**	3,480,474	**3,110,043**	3,480,474
Investment properties (Note 12)	**165,281**	183,705	**165,867**	183,705
Other assets (Note14)	**58,804**	116,799	**58,804**	116,799
	3,361,144	3,807,994	**3,361,730**	3,807,994
Provisions charged to current operations (Note 10, 12, and 14)	**1,530,795**	731,848	**1,507,833**	731,848
Interest accrued on impaired loans	**(41,177)**	(29,006)	**(41,177)**	(29,006)
Write-off of loans and receivables	**(1,424,715)**	(1,091,820)	**(1,424,715)**	(1,091,820)
Reversal of allowance on disposals of investment properties and other repossessed other assets (Notes 12 and 14)	**(70,283)**	(57,872)	**(39,699)**	(57,286)
Write-off of other assets	**(6,299)**	–	**(6,299)**	–
Balances at the end of year				
Due from BSP	**–**	27,016	**–**	27,016
Loans and receivables (Note 10)	**3,154,065**	3,110,043	**3,132,624**	3,110,043
Investment properties (Note 12)	**143,826**	165,281	**173,475**	165,867
Other assets (Note 14)	**51,574**	58,804	**51,574**	58,804
	₱3,349,465	₱3,361,144	**₱3,357,673**	₱3,361,730

16. Deposit Liabilities

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%. In accordance with BSP Circular No. 753 issued in 2012, reserve requirement effective on the April 6, 2012 reserve week shall be 18.00% for deposits and deposit substitutes and 3.00% for long-term negotiable certificates of deposits. As of December 31, 2012 and 2011, 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, 2012 and 2011 (as reported to the BSP):

	2012	2011
Cash and other cash items*	**₱–**	₱1,840,543
Due from BSP	**12,985,581**	4,577,043
	₱12,985,581	₱6,417,586

**Effective April 6, 2012 reserve week, cash and other cash items are no longer considered as eligible reserves.*

Of the total deposit liabilities of the Parent Company as of December 31, 2012, 2011 and 2010, about 46.28%, 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 5.00% in 2012 and 7.25% in 2011. The remaining deposit liabilities earn annual fixed interest rates ranging from 1.21% to 5.23% in 2012, from 1.28% to 6.61% in 2011 and from 0.75% to 5.50% in 2010.

The Group's interest expense on deposit liabilities amounted to ₱1.42 billion and ₱1.48 billion in 2012 and 2011, respectively. The Parent Company's interest expense on deposit liabilities amounted to ₱1.39 billion in 2012, ₱1.47 billion in 2011 and ₱1.33 billion in 2010.

On November 23, 2012, the Parent Company issued the first tranche of long term negotiable certificates of time deposit (LTNCD) amounting to ₱1.52 billion. The LTNCDs bear interest at 5.00% per annum payable quarterly and will mature on May 28, 2018.

17. Bills and Acceptances Payable

This account consists of borrowings from:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Banks and other financial institutions	**₱5,536,528**	₱2,113,839	**₱5,536,528**	₱2,113,839
Outstanding acceptances	**34,859**	46,983	**34,859**	46,983
BSP	**–**	2,366	**–**	–
	₱5,571,387	₱2,163,188	**₱5,571,387**	₱2,160,822

As of December 31, 2012 and 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 ₱4.74 billion and ₱2.81 billion, respectively, and fair value of ₱5.40 billion and ₱3.63 billion, respectively, were pledged with other banks as collateral for borrowings amounting to ₱4.57 billion and ₱2.11 billion, respectively.

Bills payable to the BSP, other banks and other financial institutions are subject to annual interest rates ranging from 0.65% to 5.00% in 2012, 2.63% to 4.00% in 2011 and from 2.47% to 5.84% in 2010.

The Group's interest expense on bills and acceptances payable amounted to ₱66.85 million and ₱147.26 million in 2012 and 2011, respectively. The Parent Company's interest expense on bills and acceptances payable amounted to ₱70.40 million in 2012, ₱133.41 million in 2011 and ₱74.97 million in 2010.

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Accrued expenses	**₱640,305**	₱397,855	**₱498,407**	₱396,618
Accrued interest payable	**247,653**	307,524	**236,574**	296,375
Accrued other taxes	**68,105**	47,379	**45,530**	40,788
	₱956,063	₱752,758	**₱780,511**	₱733,781

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. As of December 31, 2012, accrued expenses also includes net retirement obligation amounting to ₱27.04 million and ₱8.93 million for the Group and Parent Company, respectively.

19. Subordinated Debt

Subordinated debt consists of (in millions):

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
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**	₱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.	**114**	111	**–**	–
	₱2,864	₱2,861	**₱2,750**	₱2,750

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, GBI 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 GBI or related party of GBI 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 GBI against the Notes.

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

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 GBI.

The Group's interest expense on subordinated debt amounted to ₱232.36 million and ₱223.96 million in 2012 and 2011, respectively. The Parent Company's interest expense on subordinated debt amounted to ₱220.31 million in 2012 and 2011, and ₱163.40 million in 2010.

20. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Bills purchased - contra	**₱1,282,201**	₱741,010	**₱1,282,201**	₱741,010
Accounts payable	**707,961**	633,205	**707,324**	515,376
Deferred revenue	**271,142**	258,943	**271,142**	242,121
Retention payable	**132,781**	64,447	**132,781**	64,447
Withholding tax payable	**64,025**	41,881	**61,693**	40,607
Payment orders payable	**18,501**	13,872	**18,501**	13,872
Derivative liabilities (Note 5)	**56,368**	–	**56,368**	–
Miscellaneous	**206,964**	114,080	**198,616**	70,706
	₱2,739,943	₱1,867,438	**₱2,728,626**	₱1,688,139

Deferred revenue refers to deferral and release of loyalty points program transactions and membership fees and dues. Other liabilities consist mainly of suspense accounts.

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:

	Consolidated					
	2012			2011 (As restated)		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Financial Assets						
Cash and other cash items	₱3,235,161	₱–	₱3,235,161	₱2,243,104	₱–	₱2,243,104
Due from BSP	21,855,275	–	21,855,275	11,315,202	–	11,315,202
Due from other banks	1,637,917	–	1,637,917	1,739,088	–	1,739,088
IBLR and SPURA (Note 8)	582,648	–	582,648	7,723,094	–	7,723,094
Financial assets at FVTPL (Note 9)	4,260,325	–	4,260,325	5,831,623	–	5,831,623
Investments at FVTOCI (Note 9)	–	9,982	9,982	–	77,244	77,244
Investment securities at amortized cost (Note 9)	–	9,620,505	9,620,505	–	11,946,992	11,946,992
Loans and receivables - gross (Note 10)	42,495,232	33,496,964	75,992,196	32,595,177	20,842,957	53,438,134
	74,066,558	43,127,451	117,194,009	61,447,288	32,867,193	94,314,481
Nonfinancial Assets						
Property and equipment (Note 11)	₱–	₱2,740,689	₱2,740,689	₱–	₱1,947,717	₱1,947,717
Investment properties (Note 12)	–	937,648	937,648	–	1,085,154	1,085,154
Deferred tax assets (Note 24)	–	973,137	973,137	–	928,158	928,158
Goodwill and other intangible assets (Note 13)	–	3,399,851	3,399,851	–	2,436,179	2,436,179
Other assets (Note 14)	187,135	770,326	957,461	235,168	410,543	645,711
	187,135	8,821,651	9,008,786	235,168	6,807,751	7,042,919
	74,253,693	51,949,102	126,202,795	61,682,456	39,674,944	101,357,400
Allowances for impairment and credit losses on loans and receivable (Note 15)	–	–	(3,154,065)	–	–	(3,110,043)
Unearned discounts (Note 10)	–	–	(1,645,390)	–	–	(2,241,292)
	₱74,253,693	₱51,949,102	₱121,403,340	₱61,682,456	₱39,674,944	₱96,006,065
Financial Liabilities						
Deposit liabilities	85,588,336	5,620,469	91,208,805	62,973,177	13,696,358	76,669,535
Bills and acceptances payable (Note 17)	5,571,387	–	5,571,387	2,163,188	–	2,163,188
Cashiers' checks and demand drafts payable	714,398	–	714,398	452,569	–	452,569
Subordinated debt (Note 19)	–	2,863,751	2,863,751	–	2,861,282	2,861,282
Accrued interest, taxes and other expenses (Note 18)	925,153	–	925,153	709,252	–	709,252
Other liabilities (Note 20)	726,462	196,911	923,373	690,452	–	690,452
	93,525,736	8,681,131	102,206,867	66,988,638	16,557,640	83,546,278
Nonfinancial liabilities						
Income tax payable	28,113	–	28,113	15,696	–	15,696
Accrued interest, taxes and other expenses (Note 18)	3,867	27,043	30,910	43,506	–	43,506
Other liabilities (Note 20)	1,395,735	420,835	1,816,570	1,176,986	–	1,176,986
	1,427,715	447,878	1,875,593	1,236,188	–	1,236,188
	₱94,953,451	₱9,129,009	₱104,082,460	₱68,224,826	₱16,557,640	₱84,782,466

	Parent Company					
	2012			2011 (As restated)		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Financial Assets						
Cash and other cash items	₱3,180,497	₱–	₱3,180,497	₱2,190,159	₱–	₱2,190,159
Due from BSP	21,789,239	–	21,789,239	11,306,441	–	11,306,441
Due from other banks	1,524,815	–	1,524,815	1,527,896	–	1,527,896
IBLR and SPURA (Note 8)	582,648	–	582,648	7,723,094	–	7,723,094
Financial assets at FVTPL (Note 9)	4,260,325	–	4,260,325	5,831,623	–	5,831,623
AFS investments (Note 9)	–	–	–	–	–	–
Investments at FVTOCI (Note 9)	–	9,982	9,982	–	77,244	77,244
Investment securities at amortized cost (Note 9)	–	9,620,095	9,620,095	–	11,946,992	11,946,992
Loans and receivables - gross (Note 10)	41,559,056	32,688,615	74,247,671	32,588,121	20,842,956	53,431,077
	72,896,580	42,318,692	115,215,272	61,167,334	32,867,192	94,034,526
Nonfinancial Assets						
Investment in subsidiaries (Note 7)	–	241,072	241,072	–	158,548	158,548
Property and equipment (Note 11)	–	2,572,532	2,572,532	–	1,733,954	1,733,954
Investment properties (Note 12)	–	730,335	730,335	–	866,102	866,102
Deferred tax assets (Note 24)	–	1,146,176	1,146,176	–	1,115,778	1,115,778
Goodwill and other intangible assets (Note 13)	–	2,370,542	2,370,542	–	1,427,512	1,427,512
Other assets (Note 14)	187,135	745,970	933,105	188,842	427,283	616,125
	187,135	7,806,627	7,993,762	188,842	5,729,177	5,918,019
	73,083,715	50,125,319	123,209,034	61,356,176	38,596,369	99,952,545
Allowances for impairment and credit losses on loans and receivable (Note 15)	–	–	(3,132,624)	–	–	(3,110,043)
Unearned discounts (Note 10)	–	–	(1,645,097)	–	–	(2,241,292)
	₱73,083,715	₱50,125,319	₱118,431,313	₱61,356,176	₱38,596,369	₱94,601,210
Financial Liabilities						
Deposit liabilities	₱82,555,551	₱5,963,071	₱88,518,622	₱61,893,346	₱13,696,357	₱75,589,703
Bills and acceptances payable (Note 17)	5,571,387	–	5,571,387	2,160,822	–	2,160,822
Cashiers' checks and demand drafts payable	714,398	–	714,398	452,569	–	452,569
Subordinated debt (Note 19)	–	2,750,000	2,750,000	–	2,750,000	2,750,000
Accrued interest, taxes and other expenses (Note 18)	726,052	–	726,052	690,275	–	690,275
Other liabilities (Note 20)	726,462	196,911	923,373	529,248	–	529,248
	90,293,850	8,909,982	99,203,832	65,726,260	16,446,357	82,172,617
Nonfinancial liabilities						
Income tax payable	27,766	–	27,766	14,511		14,511
Accrued interest, taxes and other expenses (Note 18)	45,530	8,929	54,459	43,506	–	43,506
Other liabilities (Note 20)	1,395,735	409,518	1,805,253	1,158,891	–	1,158,891
	1,469,031	418,447	1,887,478	1,216,908	–	1,216,908
	₱91,762,881	₱9,328,429	₱101,091,310	₱66,943,168	₱16,446,357	₱83,389,525

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.

Regulatory Qualifying Capital
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 2012 and 2011, 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, 2012 and 2011 are shown in the table below (amounts in millions):

	Consolidated			
	2012		2011	
	Actual	Required	Actual	Required
Tier 1 capital	₱16,836		₱10,856	
Tier 2 capital	3,489		3,467	
Gross qualifying capital	20,325		14,323	
Less required deductions	2,389		2,338	
Total qualifying capital	₱17,936	₱2,400	₱11,985	₱2,400
Risk weighted assets	₱103,361		₱76,005	
Tier 1 capital ratio	13.98%		11.21%	
Total capital ratio	17.35%	10%	15.77%	10%

	Parent Company			
	2012		2011	
	Actual	Required	Actual	Required
Tier 1 capital	₱16,937		₱10,918	
Tier 2 capital	3,353		3,326	
Gross qualifying capital	20,290		14,244	
Less required deductions	2,178		3,266	
Total qualifying capital	₱18,112	₱2,400	₱10,978	₱2,400
Risk weighted assets	₱99,914		₱72,776	
Tier 1 capital ratio	14.77%		10.51%	
Total capital ratio	18.13%	10.00%	15.08%	10.00%

Presented below are the composition of qualifying capital and the related deductions as reported to the BSP (amounts in millions):

	Consolidated		Parent Company	
	2012	2011	2012	2011
Tier 1 capital				
Paid up common stock	₱11,284	₱3,874	₱11,284	₱3,874
Paid up preferred stock	–	3,000	–	3,000
Additional paid-in capital	979	–	979	–
Retained earnings	2,749	2,473	2,888	2,344
Undivided profits	1,827	1,573	1,803	1,707
Cumulative foreign currency translation	(17)	(7)	(17)	(7)
Minority interest	14	(57)	–	–
Core Tier 1 capital	₱16,836	₱10,856	₱16,937	₱10,918
Deductions from Tier 1 capital				
Total outstanding unsecured credit accommodation to a DOSRI	₱315	₱323	₱315	₱1,326
Deferred income tax (net)	965	1,302	1,150	1,227
Goodwill	1,109	713	713	713
Total Deductions	2,389	2,338	2,178	3,266
Total Tier 1 Capital	14,447	8,518	14,759	7,652

(Forward)

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Tier 2 capital				
General loan loss provision	**626**	615	**603**	586
Unsecured subordinated debt	**2,863**	2,852	**2,750**	2,740
Total Tier 2 capital	**3,489**	3,467	**3,353**	3,326
Eligible Tier 2 capital	**3,489**	3,467	**3,353**	3,326
Qualifying capital				
Net Tier 1 capital	**₱14,447**	₱8,518	**₱14,759**	₱7,652
Net Tier 2 capital	**3,489**	3,467	**3,353**	3,326
Total qualifying capital	**17,936**	11,985	**18,112**	10,978
Capital requirements				
Credit risk	**8,485**	6,091	**8,215**	5,858
Market risk	**553**	318	**553**	318
Operational risk	**1,297**	1,192	**1,223**	1,102
Total capital requirements	**₱10,335**	₱7,601	**₱9,991**	₱7,278

The policies and processes guiding the determination of the sufficiency of capital of the Parent Company have been incorporated to the Parent Company's Internal Capital Adequacy Assessment Process (ICAAP) which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538 and BSP No. 639 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, 2012 and 2011.

Capital Stock
Capital stock consist of:

	2012	2011	2010
Common stock - ₱10.00 par value			
Authorized - 1,500,000,000 shares in 2012 and 500,000,000 shares in 2011			
Issued and outstanding - 1,128,409,610 shares in 2012 and 387,352,810 in 2011 and 2010	**₱11,284,096**	₱3,873,528	₱3,873,528
Preferred stock - ₱10.00 par value convertible, nonvoting shares			
Authorized - 500,000,000 shares in 2012 and 300,000,000 shares in 2011			
Issued and outstanding - none in 2012 and 300,000,000 in 2011 and 2010	**–**	3,000,000	3,000,000
	₱11,284,096	₱6,873,528	₱6,873,528

On January 19, 2012 and February 10, 2012, the Parent Company received cash from its shareholders totaling ₱3.00 billion as deposits for future stock subscription for 300 million common shares which were subsequently issued in March 2012. Also in the same period, the preferred shareholders converted a total of 300 million preferred shares amounting to ₱3.00 billion to 300 million common shares.

With the approvals by the PSE of the Parent Company's application for listing and by the SEC for the Registration Statement both on March 14, 2012, a total of 245,316,200 common shares, with ₱10.00 par value per share, representing 21.70% of outstanding capital stock, were offered and subscribed through an initial public offering at ₱18.50 per share on April 20 to 26, 2012. The common shares comprise of (a) 141,056,800 new shares issued by the Parent Company by way of a primary offer, and (b) 104,259,400 existing shares offered by FDC, the selling shareholder, pursuant to a secondary offer. Subsequently, on September 5, 2012, 36,715,300 shares under the over-allotment option were exercised at a price of ₱18.50 per share that brought the subscriptions to 25.00% of the outstanding capital stock. The Parent Company's common shares were listed and commenced trading in the PSE on May 7, 2012. As of December 31, 2012, 32 shareholders owned at least 100 shares of stock.

The total proceeds raised by the Parent Company from the sale of primary offer shares amounted to ₱2.61 billion while the net proceeds (after deduction of direct costs related to equity issuance) amounted to ₱2.39 billion.

Dividends

The following cash dividends were paid by the Parent Company in 2012, 2011 and 2010

2012

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

2011

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

2010

Class	Date of declaration	Date of record	Date of BSP approval	Date of payment	Per share	Total amount
Preferred	May 10, 2010	May 27, 2010	August 9, 2010	August 13, 2010	₱0.225	₱67,500,000

For the year ended December 31, 2012, no cash dividends were declared.

23. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	Consolidated		Parent Company		
	2012	2011	**2012**	2011	2010
Recovery on charged-off assets	**₱183,537**	₱111,382	**₱180,821**	₱111,382	₱111,742
Rental income	**3,823**	2,841	**3,823**	2,841	2,598
Dividend income	**975**	1,047	**975**	1,047	1,066
Others	**83,902**	50,778	**42,499**	31,143	31,561
	₱272,237	₱166,048	**₱228,118**	₱146,413	₱146,967

Other income includes referral income earned on insurance premiums charged through credit cards.

Miscellaneous expenses consist of:

	Consolidated		Parent Company		
	2012	2011	**2012**	2011	2010
Advertising	**₱420,141**	₱320,898	**₱ 419,628**	₱320,572	₱213,177
Service charges, fees and commissions	**363,722**	258,217	**363,630**	257,967	226,437
Security, messengerial and janitorial services	**271,631**	188,428	**253,743**	188,178	161,841
Insurance	**185,419**	156,190	**176,655**	156,123	126,737
Brokerage fees	**161,194**	135,327	**161,194**	135,278	151,666
Postage, telephone, cables and telegram	**156,915**	118,049	**146,840**	116,044	133,295
Transportation and travel	**151,334**	111,444	**141,237**	108,979	109,492
Technological fees	**143,240**	106,446	**143,201**	106,239	98,560
Power, light and water	**122,391**	78,572	**110,939**	76,166	70,870
Stationery and supplies	**95,945**	62,422	**89,401**	62,345	70,419
Management and other professional fees	**52,289**	31,594	**47,970**	29,682	22,400
Entertainment, amusement and recreation	**45,781**	28,900	**39,310**	28,770	26,305
Repairs and maintenance	**39,353**	46,373	**33,132**	46,321	46,668
Supervision fees	**25,870**	24,348	**25,427**	23,810	28,710
Litigation expenses	**22,893**	13,907	**22,893**	13,884	34,459
Others	**324,883**	119,479	**298,000**	115,728	115,410
	₱2,583,001	₱1,800,594	**₱2,473,200**	₱1,786,086	₱1,636,446

Other expenses include payments for subscriptions, membership fees, trainings, donations and contributions, delivery and freight expenses, fines, penalties, other charges and clearing fees.

24. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its subsidiaries are 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.

In 2011, the BIR issued Revenue Regulation 14-2011, which prescribes the proper allocation of costs and expenses among the income earnings of financial institutions for income tax reporting. Only costs and expenses attributable to the operations of the RBU can be claimed as deduction to arrive at the taxable income of the RBU subject to the RCIT. All costs and expenses pertaining to the FCDU/EFCDU are excluded from the RBU's taxable income. Within the RBU, common costs and expenses should be allocated among taxable income, tax-paid income and tax-exempt income using the specific identification or the allocation method.

Provision for income tax consists of:

	Consolidated		Parent Company		
	2012	2011 (As restated)	2012	2011 (As restated)	2010 (As restated)
Current:					
Final tax	₱120,369	₱154,481	₱120,151	₱153,779	₱111,548
Minimum corporate income tax	2,350	68,445	–	68,383	–
Regular corporate income tax	84,873	–	84,873	–	47,974
	207,592	222,926	205,024	222,162	159,522
Deferred	(31,590)	156,572	(17,009)	156,572	(191,023)
	₱176,002	₱379,498	₱188,015	₱378,734	(₱31,501)

The components of the Group's and the Parent Company's net deferred tax assets as of December 31, 2012 and 2011 and January 1, 2011 follow:

	Consolidated		Parent Company		
	2012	2011 (As restated)	2012	2011 (As restated)	January 1, 2011 (As restated)
Deferred tax asset on:					
Allowance for impairment and credit losses	₱1,040,389	₱1,010,448	₱1,012,345	₱1,010,448	₱1,156,562
MCIT	2,350	68,383	–	68,383	–
Accrued expenses	45,116	71,994	45,116	71,994	68,333
Accumulated depreciation of assets foreclosed or dacioned	71,681	57,405	69,655	57,405	51,166
NOLCO	2,038	18,200	–	18,200	–
Unamortized past service cost	7,023	14,661	7,023	14,661	8,924
Unrealized foreign exchange loss	117,340	–	117,340	–	98,066
Net retirement obligation	8,113	–	2,679	–	–
	1,294,050	1,241,091	1,254,158	1,241,091	1,383,051
Deferred tax liability on:					
Branch licenses acquired from business combination	₱187,620	₱187,620	₱–	₱–	₱–
Gain on asset foreclosure and dacion transactions	83,084	69,321	58,898	69,321	67,740
Excess of fair value over carrying value of net assets acquired from business combinations	49,084	43,477	49,084	43,477	33,557
Prepaid rent	1,125	–	–	–	–
Net plan assets	–	12,315	–	12,315	12,133
Unrealized foreign exchange gain	–	200	–	200	–
	320,913	312,933	107,982	125,313	113,430
	₱973,137	₱928,158	₱1,146,176	₱1,115,778	₱1,269,621

Provision for deferred income tax charged directly to OCI during the year follows:

	Consolidated		Parent Company		
	2012	2011 (As restated)	2012	2011 (As restated)	2010 (As restated)
Remeasurements on retirement plan	(₱13,389)	(₱2,729)	(₱13,389)	(₱2,729)	₱10,012

The movements in NOLCO and MCIT follows:

	Consolidated		Parent Company		
	2012	2011	**2012**	2011	2010
NOLCO					
At beginning of year	**₱60,667**	₱–	**₱60,667**	₱–	₱–
Addition	**6,792**	60,667	**–**	60,667	–
Used	**(60,667)**	–	**(60,667)**	–	–
At end of year	**₱6,792**	₱60,667	**₱–**	₱60,667	₱–
MCIT					
At beginning of year	**₱68,383**	₱–	**₱68,383**	₱–	₱33,914
Addition	**2,350**	68,383	**–**	68,383	–
Used	**(68,383)**	–	**(68,383)**	–	(33,914)
At end of year	**₱2,350**	₱68,383	**₱–**	₱68,383	₱–

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

	Consolidated		Parent Company		
	2012	2011 (As restated)	**2012**	2011 (As restated)	2010 (As restated)
Statutory income tax	**₱597,715**	₱633,001	**₱610,069**	₱634,271	₱533,510
Additions to (reductions from) income taxes resulting from the tax effects of:					
Nondeductible expenses	**135,428**	139,234	**135,062**	137,455	77,489
FCDU income	**(186,543)**	(97,998)	**(186,543)**	(97,998)	(363,240)
Non taxable and tax-exempt income	**(237,827)**	(204,984)	**(237,827)**	(204,984)	(172,329)
Interest income subjected to final tax net of tax paid	**(132,771)**	(89,755)	**(132,746)**	(90,010)	(73,928)
Change in unrecognized deferred tax assets	**–**	–	**–**	–	(33,003)
Effective income tax	**₱176,002**	₱379,498	**₱188,015**	₱378,734	(₱31,501)

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 (equivalent to 125.00% of the final monthly salary for every year of service) after satisfying certain age and service requirements. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust Division under the supervision of the Retirement Committee.

GBI also has a funded noncontributory defined benefit plan covering substantially all of its officers and regular employees. GBI provides retirement benefits equal to 100.00% of the final monthly salary for every year of service.

Under the existing regulatory framework, Republic Act 7641 requires companies with at least ten (10) employees to pay retirement benefits to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The net plan assets included in 'Other assets' and net retirement obligation included in 'Accrued taxes, interest and other expenses' in the statements of financial position are as follows:

	Consolidated		Parent Company		
	2012	2011 (As restated)	**2012**	2011 (As restated)	January 1, 2011 (As restated
Present value of the defined benefit obligation	**₱342,590**	₱255,252	**₱322,467**	₱237,235	₱196,203
Fair value of plan assets	**315,547**	279,562	**313,538**	278,285	236,647
Net retirement obligation (plan assets)	**₱27,043**	(₱24,310)	**₱8,929**	(₱41,050)	(₱40,444)

As of December 31, 2012 and 2011, retirement asset was fully recognized because it did not exceed the limit provided by PAS 19.

Changes in the present value of the defined benefit obligation as of December 31, 2012 and 2011 recognized in the statements of financial position follow:

	Consolidated		Parent Company		
	2012	2011 (As restated)	**2012**	2011 (As restated)	January 1, 2011 (As restated
Balance at beginning of year	**₱255,252**	₱196,203	**₱237,235**	₱196,203	₱153,750
Current service cost	**50,762**	31,802	**49,986**	31,563	25,556
Interest cost	**17,633**	14,590	**16,132**	14,440	11,935
Remeasurement (gains) losses:					
Actuarial gains and losses arising from changes in demographic assumptions	**3,977**	894	**3,977**	894	17,973
Actuarial gains and losses arising from changes in financial assumptions	**38,953**	18,914	**30,629**	18,914	(34,246)
Benefits paid	**(23,987)**	(24,779)	**(15,492)**	(24,779)	(9,676)
Present value of defined benefit obligation assumed from business combination	**–**	17,628	**–**	–	–
Past service cost	**–**	–	**–**	–	30,911
Balance at end of year	**₱342,590**	₱255,252	**₱322,467**	₱237,235	₱196,203

Changes in fair value of plan assets are as follows:

	Consolidated		Parent Company		
	2012	2011 (As restated)	**2012**	2011 (As restated)	January 1, 2011 (As restated
Balance at beginning of year	**₱279,562**	₱236,647	**₱278,285**	₱236,647	₱177,220
Contributions	**42,646**	39,614	**41,846**	39,614	38,958
Interest income	**19,026**	16,124	**18,923**	16,092	13,044
Remeasurements	**(1,700)**	10,711	**(10,024)**	10,711	17,101
Benefits paid	**(23,987)**	(24,779)	**(15,492)**	(24,779)	(9,676)
Plan assets acquired from business combination	**–**	1,245	**–**	–	–
Balance at end of year	**₱315,547**	₱279,562	**₱313,538**	₱278,285	₱236,647

The fair value of plan assets by each classes are as follows:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Cash and cash equivalents	₱72,048	₱34,103	₱70,039	₱34,099
Debt instruments				
Government securities	153,426	153,323	153,426	152,254
Private securities	25,432	61,378	25,432	61,378
Equity instruments				
Holding	16,895	12,478	16,895	12,478
Real estate	16,189	10,856	16,189	10,856
Financial institutions	12,476	2,841	12,476	2,841
Telecommunications	7,176	1,311	7,176	1,311
Services	4,396	404	4,396	404
Manufacturing	3,311	117	3,311	117
Power	3,149	1,175	3,149	1,175
Mining	982	1,283	982	1,283
Others	67	293	67	89
Fair value of plan assets	₱315,547	₱279,562	₱313,538	₱278,285

The Group's plan assets are carried at fair value. All equity and debt instruments held have quoted prices in active market. The fair value of other assets and liabilities which include deposits in banks, accrued interest and other receivables and trust fee payables approximates carrying amount due to the short-term nature of these accounts.

The plan assets have diverse investments and do not have any concentration risk.

Each year, an Asset-Liability Matching Study (ALM) is performed with the result being analyzed in terms of risk-and-return profiles. The Group's current strategic investment strategy consists of 70.00% of debt instruments, 25.00% of equity instruments, and 5.00% cash.

The Group expects to contribute ₱74.00 million to the plan in 2013.

The cost of defined benefit retirement plans as well as the present value of the benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used are shown below:

	Parent Company			GBI	
	2012	2011	2010	2012	2011
Discount rate					
At January 1	6.80%	7.36%	10.87%	8.33%	8.33%
At December 31	6.10%	6.80%	7.36%	8.33%	8.33%
Future salary increase rate	5.00%	5.00%	5.00%	1.00%	1.00%
Average remaining working life	14	14	23	13	14

The Group performed sensitivity analysis for the decrease in the discount rate as the decrease in the discount rate will increase the amount of the defined benefit obligation. Management believes that as of the reporting date, it is only the decline in discount rate that could significantly affect the retirement obligation. Management believes that the retirement obligation will not be sensitive to the salary rate increases because it is expected to be at the same level during the remaining life of the obligation. The sensitivity analysis has been determined based on reasonably possible change in the discount rate occurring at the end of the reporting period assuming all other assumptions were held constant. If the discount rate would decrease by 50 basis points, the defined benefit obligation would increase by ₱24.67 million.

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

	Consolidated		Parent Company		
	2012	2011 (As restated)	2012	2011 (As restated)	2010 (As restated)
Current service cost	₱50,762	₱31,802	₱49,986	₱31,563	₱25,556
Net interest income	(1,393)	(1,534)	(2,791)	(1,652)	(1,109)
Past service cost	–	–	–	–	30,911
Asset ceiling adjustment	–	–	–	–	(1,491)
Expense recognized during the year	₱49,369	₱30,268	₱47,195	₱29,911	₱53,867

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.

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 years ended December 31, 2012 and 2011, the total rentals of the Group charged to operations amounted to ₱410.18 million and ₱291.05 million, respectively. For the years ended December 31, 2012, 2011 and 2010, total rentals charged to operations by the Parent Company amounted to ₱386.66 million, ₱282.62 million and ₱273.79 million, respectively.

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

	Consolidated		Parent Company	
	2012	2011	2012	2011
Within one year	₱296,914	₱204,490	₱281,762	₱189,278
After one year but not more than five years	1,133,633	616,014	1,108,746	583,048
More than five years	1,128,635	600,860	1,126,800	589,611
	₱2,559,182	₱1,421,364	₱2,517,308	₱1,361,937

27. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- subsidiaries, joint ventures and associates and their respective subsidiaries, and
- post-employment benefit plans for the benefit of the Group's employees.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

The amounts and the balances arising from the foregoing significant related party transactions of the Group and the Parent Company are as follows:

Category	2012 Amount/Volume	Outstanding Balance	Terms and Conditions/ Nature
Significant investors:			
Loans receivable	₱–	₱958,055	Loans granted with terms of one year, interest ranging from 2.38% to 4.50%, and with 70.00% of the loans fully secured by real estate and chattel mortgage.
Deposit liabilities	–	600,808	Deposit liabilities with interest ranging from 1.24% to 3.50%.
Accrued interest receivable	–	8,655	Interest income accrued on outstanding loans.
Accrued expenses	–	5,558	Payable for management and professional fees paid by FDC (reimbursement for expenses).
Guarantees and commitments	–	4,284,055	Unused credit lines.
Derivative assets	–	28,102	Fair value of the foreign exchange forward contracts with FDC.
Interest income	28,566	–	Interest income on loans.
Interest expense	8,418	–	Interest expense on deposit liabilityes.
Foreign exchange gain	23,731	–	Foreign exchange gain on the foreign exchange forward contracts with FDC.
Key management personnel:			
Loans receivable	₱–	₱26,277	Loans granted with terms ranging from five to fifteen years andinterest ranging from 7.00% to 10.20%.
Deposit liabilities	–	515,923	Deposit liabilities with interest ranging from 1.24% to 3.50% in 2012.
Interest income	2,755	–	Interest income on loans.
Interest expense	325	–	Interest expense on deposit liabilities.
Other related parties:			
Loans receivable	–	501,581	Loans granted with terms ranging from three months to five years, interest ranging from 4.50% to 11.52%, fully secured by real estate and chattel mortgage.
Deposit liabilities	–	1,228,756	Deposit liabilities with interest ranging from 1.24% to 3.50%.
Accrued interest receivable	–	389	Interest income accrued on outstanding loans.
Guarantees and commitments	–	9,900,000	Unused credit lines.
Accounts receivables	–	9,050	Accounts receivables for certain advances that are non-interest bearing and payable on demand.
Interest income	581	–	Interest income on loans.
Interest expense	1,388	–	Interest expense on deposit liabilities.
Service fee expense	1,635	–	Service fees paid to FLI for account servicing equivalent to 1.12% of loan amounts collected by FLI in behalf of the Parent Company related to the Parent Company's purchase of installment contract receivables. (see Note 10).
Service charges, fees and commissions	1,034	–	Commissions received by the Parent Company for its services as a selling agent of FLI's bonds issued in 2012.
Rent expense	39,652	–	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, Filinvest Alabang, Inc. and FLI.
Gain on sale of assets	232	–	Gain on sale of investment property to Filinvest Alabang, Inc.

Category	2011 Amount/Volume	Outstanding Balance	Terms and Conditions/ Nature
Significant investors:			
Loans receivable	₱–	₱976,292	Loans granted with terms of one year, interest ranging from 2.71% to 4.25%, with 70.00% of the loans secured by real estate and chattel mortgage.
Deposit liabilities	–	1,551,432	Deposit liabilities bearing interest ranging from 0.75% to 4.25%.
Accrued interest receivable	–	1,530	Interest income accrued on outstanding loans.
Accrued expenses	–	6,314	Payable for management and professional fees paid by FDC (reimbursement for expenses).
Guarantees and commitments	–	1,900,000	Unused credit lines.
Interest income	10,811	–	Interest income on loans.
Interest expense	1,396	–	Interest expense on deposit liabilities.

(Forward)

Category	2011 Amount/Volume	Outstanding Balance	Terms and Conditions/ Nature
Key management personnel:			
Loans receivable	–	16,331	Loans granted with terms ranging from five to fifteen years and interest ranging from 7.00% to 10.20%.
Deposit liabilities	–	18,811	Deposit liabilities with interest ranging from 0.75% to 4.25%.
Interest Income	1,635	–	Interest income on loans.
Interest expense	215	–	Interest expense on deposit liabilities.
Other related parties:			
Loans receivable	₱–	₱850	Loans granted with terms of five years, interest from 4.50% to 11.52%, fully secured by real estate and chattel mortgage.
Deposit liabilities	–	923,051	Deposit liabilities with interest ranging from 0.75% to 4.25%.
Accrued interest receivable	–	3,333	Interest income accrued on outstanding loans.
Guarantees and commitments	–	4,250,000	Unused credit lines.
Accounts receivables	–	9,050	Accounts receivables for certain advances that are non-interest bearing and payable on demand.
Interest income	–	–	Interest income on loans.
Interest expense	9,773	–	Interest expense on deposit liabilities.
Rent expense	38,674	–	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, Filinvest Alabang, Inc. and FLI.

The Group's significant investors pertain to FDC, immediate Parent Company of the Group and FDC Forex Corporation (a company under common control of FDC).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24. The Group provides banking services to its key management personnel.

Other related parties pertain to the Group's affiliates (subsidiaries of FDC).

The Group and Parent Company had no outright purchases and outright sale of debt securities with its significant shareholders, key management personnel and other related parties in 2012 and 2011.

No provision and allowance for loan losses was recognized by the Group for loans to its significant investors, key management personnel and other related parties.

The Parent Company's subsidiaries have no transactions with related parties outside of the Group. The transactions disclosed above are the same for the Group and the Parent Company.

<u>Parent Company related party transactions</u>
In addition to the above transactions, the following are the related party transactions of the Parent Company recognized in the statement of income for the year ended December 31, 2010.

Category	2010 Amount/Volume	Terms and Conditions/ Nature
Significant investors:		
Interest income	₱19,396	Interest income on loans with interest ranging from 4.50% to 5.35%.
Interest expense	497	Interest expense on deposit liabilities with interest ranging from 1.00% to 4.06%.
Key management personnel:		
Interest income	1,289	Interest income on loans with interest ranging from 7.00% to 8.74.%.
Interest expense	1,378	Interest expense on deposit liabilities with interest ranging from 1.00% to 4.06%.
Other related parties:		
Interest income	139	Interest income on loans with interest of 11.52%
Interest expense	10,375	Interest expense on deposit liabilities with interest ranging from 1.00% to 4.06%.
Rent expense	37,455	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, Filinvest Alabang, Inc. and FLI

Transactions between the Parent Company and its subsidiaries meet the definition of related party transactions. Details of the Parent Company's subsidiaries are disclosed in Note 1.

In addition to the transactions discussed above, the following are the transactions between the Parent Company and its subsidiaries that are recognized in the Parent Company's statement of financial position and statement of income and eliminated in the consolidated financial statements:

	2012		
Category	Amount/Volume	Outstanding Balance	Terms and Conditions/ Nature
Subsidiaries:			
Deposit liabilities	₱–	₱353,960	Deposit liabilities with interest from 0.00% to 2.50%.
Other receivables	–	820,000	Additional investments in GBI and FRBI amounting to ₱700.00 million and ₱120.00 million, respectively, presented as deposits for future stock subscription in the subsidiaries' financial statements (See Notes 1 and 10).
Interest income	69,696	–	Interest income on outstanding loans.
Interest expense	588	–	Interest expense on deposit liabilities.

	2011		
Category	Amount/Volume	Outstanding Balance	Terms and Condition/ Nature
Subsidiaries:			
Loans receivable	₱–	₱1,000,000	Loans granted to GBI with term of one month and interest of 5.00%.
Accrued interest receivable	–	3,333	Interest income accrued on outstanding loans.
Interest income	15,833	–	Interest income on loans.

Transactions with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust Division under the supervision of the Retirement Committee. The carrying value of the fund which approximates its fair value are as follows:

	2012	2011
Cash and cash equivalents	₱70,039	₱34,099
Equity instruments	64,574	30,465
Debt instruments	178,858	213,632
Others	67	89
	₱313,538	₱278,285

The assets and investment of the fund consists mainly of cash and cash equivalents, equity instruments and debt instruments. Cash and cash equivalents include the savings deposit with the Parent Bank amounting to ₱1.20 million as of December 31, 2012. Debt instruments include investments in the Parent Company's LTNCD amounting to ₱46.15 million as of December 31, 2012. Equity instruments include investments in the Parent Company's equity securities amounting ₱0.87 million equivalent to 30,000 shares with fair market value of ₱29.00 per share as of December 31, 2012. The Trust Division exercises the voting rights over the shares.

The following are the amounts recognized by the retirement plan arising from its transactions with the Parent Company for the years ended December 31, 2012, 2011 and 2010.

	2012	2011	2010
Trust fees	₱1,265	₱1,351	₱736
Interest income on savings deposit	149	–	–
Interest income on investments in LTNCD	45	–	–
Gain on investments in equity shares	91	–	–

Remunerations of Directors and other Key Management Personnel
Total remunerations of key management personnel are as follows:

	Consolidated		Parent Company		
	2012	2011	**2012**	2011	2010
Short-term employee benefits	**₱231,210**	₱171,883	**₱225,199**	₱141,744	₱83,538
Post employment benefits	**4,320**	7,515	**4,320**	7,515	4,429
	₱235,530	₱179,398	**₱229,519**	₱149,259	₱87,967

Remunerations given to directors which were approved by the Board Remuneration Committee amounted to ₱7.30 million in 2012, ₱8.00 million in 2011, and ₱5.10 million in 2010 for the Group and Parent Company.

Regulatory Reporting
As required by BSP, the Group discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said circular:

	Consolidated		Parent Company		
	2012	2011	**2012**	**2011**	2010
Total outstanding DOSRI accounts	**₱1,596,916**	₱1,102,394	**₱1,596,916**	₱2,102,394	₱1,220,106
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.001%**	0.01%	**0.001%**	0.01%	0.20%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**2.27%**	1.88%	**2.27%**	3.53%	1.28%
Percent of DOSRI accounts to total loans	**2.27%**	1.89%	**2.27%**	3.54%	2.92%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**19.71%**	29.11%	**19.71%**	62.83%	29.02%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	**0.00%**	0.00%	0.62%

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive that that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2012 and 2011, the Parent Company is in compliance with these requirements.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation. As of December 31, 2012 and 2011, the Parent Company is in compliance with these requirements.

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 ₱13.80 billion and ₱8.86 billion as of December 31, 2012 and 2011, respectively.

Government securities with a total face value of ₱181.8 million and ₱131.04 million as of December 31, 2012 and 2011, 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, 2012 and 2011.

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 ₱27.84 million, ₱31.10 million and ₱45.02 million in 2012, 2011 and 2010, 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:

	2012	2011	2010
Unused credit line - credit card	**₱22,108,158**	₱15,549,780	₱11,146,818
Trust department accounts (Note 28)	**13,803,205**	8,857,411	10,058,308
Forward exchange sold	**7,150,910**	15,119,147	25,123,630
Treasurer/cashier/manager's checks	**5,258,228**	–	1,130,963
Spot exchange sold	**1,429,038**	9,325,935	4,378,553
Unused commercial letters of credit	**1,348,261**	612,741	561,099
Outstanding guarantees	**483,008**	568,910	92,686
Inward bills for collection	**68,507**	88,054	36,044
Late deposits/payments received	**20,202**	3,620	31,557
Outward bills for collection	**14,010**	47,814	7,729
Items held for safekeeping	**555**	455	4,748
Unsold traveler's check	**25**	26	430
Others	**20**	21	21,367

30. Financial Performance

Earnings per share amounts were computed as follows:

		Consolidated		Parent Company
		2012	2011 (As restated)	2010 (As restated)
a.	Net income attributable to equity holders of the Parent Company	₱1,817,409	₱1,730,965	₱1,809,866
b.	Dividends declared on convertible preferred shares	–	(270,000)	(202,500)
c.	Net income attributable to common shareholders of the Parent Company	1,817,409	1,460,965	1,607,366
d.	Weighted average number of outstanding common shares (Note 22)	981,391	387,353	387,353
e.	Weighted average number of convertible preferred shares (Note 22)	50,000	300,000	300,000
f.	Total weighted average number of outstanding common and convertible preferred shares	1,031,391	687,353	687,353
g.	Basic EPS (c/d)	1.85	3.77	4.15
h.	Diluted EPS (a/f)	1.76	2.52	2.63

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

	Consolidated		Parent Company		
	2012	2011	2012	2011	2010
Return on average equity	11.86%	17.00%	12.04%	17.11%	19.80%
Return on average assets	1.87%	2.02%	1.92%	2.09%	2.34%
Net interest margin on average earnings assets	7.04%	6.60%	7.03%	6.56%	6.45%

31. Events Subsequent to Reporting Period

On January 23, 2013, the Parent Company acquired the remaining shares of the non-controlling interest of FRBI amounting to ₱6.90 million, increasing its ownership interest to 100.00%.

On February 25, 2013, the Parent Company raised ₱238.88 million from the issuance of the second tranche of LTNCD, bearing an interest of 5.00% per annum payable quarterly and maturing on May 23, 2018.

32. Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Supplementary Information under RR No. 19-2011

On December 9, 2011, the Bureau of Internal Revenue issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011 and requires disclosure of taxable income, cost of service and other deductions in the notes to the financial statements.

The Parent Company reported the following gross receipts and expenses for the year ended December 31, 2012:

	2012	
	RBU	FCDU
Gross receipts		
Interest income	₱6,583,460	₱496,676
Other income	2,481,621	29,809
	9,065,081	526,485
Cost of Services		
Interest expense	1,404,343	126,566
Compensation	1,012,405	27,462
Other direct expenses	903,887	49,770
	3,320,635	203,798
Other administrative expenses		
Write-off and losses	1,581,013	–
Salaries and allowances	889,963	72
Taxes and licenses	590,350	16
Other outside services	497,128	5,447
Advertising	440,121	1,195
Computer cost	210,558	5,670
Janitorial and messengerial services	181,621	4,514
Communication, light and water	148,648	3,002
Transportation and travel	147,229	2,464
Security services	130,572	7,298
Office supplies	88,673	2,473
NOLCO	60,667	–
Representation and entertainment	46,925	1,308
Insurance	38,423	547
Management and consultancy fee	34,247	1,086
Repairs and maintenance	31,437	1,024
Asset acquisition	25,791	–
Rental	17,149	214
Commissions	11,281	–
Miscellaneous	61,795	11,515
	₱5,233,591	₱47,845

Supplementary Information under RR No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010, requiring the inclusion of information on various taxes paid and accrued during the taxable year in the notes to the financial statements.

The Parent Company reported and/or paid the following types of taxes for the year ended December 31, 2012:

Gross Receipts Tax (GRT)

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

Details of the Parent Company's income and GRT accounts in 2012 are as follows:

	2012	
	Gross Receipts	Gross Receipts Tax
Income derived from lending activities	₱8,044,295	₱371,380
Other income	2,272,833	159,098
	₱10,317,128	₱530,478

Exclusive of the above GRT schedule, the Parent Company charged GRT to its clients amounting to ₱4.22 million in December 31, 2012.

Other Taxes and Licenses

For the years ended December 31, 2012, other taxes and licenses included in 'Taxes and licenses' account of the Parent Company consist of:

Documentary stamps taxes	₱125,178
Local taxes	15,486
Fringe benefit taxes	8,285
Others	3,570
	₱152,519

Withholding Taxes

	Total Remittances	Balance
Withholding taxes on compensation and benefits	₱300,636	₱8,042
Expanded withholding taxes	90,640	13,105
Final withholding taxes	228,452	22,527
	₱619,728	₱43,674

As of December 31, 2012, the Parent Company has no tax assessments which are covered by a Final Assessment Notice (FAN) issued by the BIR.

Shareholder Information

This 2012 annual report contains forward-looking statements about future events and expectations. These forward-looking statements include words or phrases such as the Bank or its management "believes," "expects," "anticipates," "intends," "plans," "foresees," "targets," "aims," "may," "would," "could" or other words or phrases of similar import. Similarly, statements that describe the Bank's objectives, plans or goals are also forward-looking statements. All such statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Such forward-looking statements are made based on management's current expectations or beliefs, as well as assumptions made by, and information currently available to, management. These statements speak only as at the date of the report and nothing contained in this report is or should be relied upon as a promise or representation as to the future.

This report does not constitute a prospectus or other offering memorandum in whole or in part nor does it constitute an offer to sell or the solicitation of an offer to buy any securities of the Bank. There shall be no sale of these securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to any qualification under the securities laws of such state or jurisdiction. This report has not been and will not be reviewed or approved by any statutory or regulatory authority or any stock exchange in the Philippines or elsewhere.

Recipients of this report should undertake their own assessment with regard to investment in the Bank and they should obtain independent advice on any such investment's suitability, inherent risks and merits and any tax, legal and accounting implications which it may have for them.

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