PHILIPPINE BUSINESS BANK
a savings bank

29 April 2013

Disclosure Department
Philippine Stock Exchange, Inc.
Philippine Stock Exchange Plaza,
Ayala Triangle, Ayala Avenue
Makati City

ATTENTION : **Ms. JANET ENCARNACION**
Head – Disclosure Department

RE : SEC Form 17-A (Annual Report)

Dear Ms. Encarnacion:

We transmit with this letter the SEC Form 17-A or the Annual Report of Philippine Business Bank, Inc., submitted to the Securities and Exchange Commission.

Truly yours,

ALICE P. RODIL
OIC- Investor Relations Office

COVER SHEET

A 1 9 9 7 0 1 5 8 4

S.E.C. Registration Number

PHILIPPINE BUSINESS BANK, INC.

a savings bank

(Company's Full Name)

350 RIZAL AVENUE EXTENSION

CORNER 8TH AVENUE GRACE PARK

CALOOCAN CITY

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

Alice P. Rodil

Contact Person

363-3333 local 2004

Company Telephone Number

Month Day

Fiscal Year

SEC 17-A

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, *AS AMENDED*

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE
AND SECTION 141 OF THE CORPORATION CODE**

GENERAL INSTRUCTIONS

(a) Use of SEC Form 17-A

This SEC Form 17-A shall be used for annual reports filed pursuant to Section 17 of the Securities Regulation Code (SRC) and paragraph (1)(A) of SRC Rule 17.1 thereunder. Annual reports shall be filed within one hundred five (105) calendar days after the end of the fiscal year covered by the report. Reports filed on this Form shall be deemed to satisfy Section 141 of the Corporation Code of the Philippines.

(b) Application of SRC Rules 72.1, 12.2 and 68, as amended: Requirements for Filing Forms

SRC Rule 72.1 contains general rules which are applicable to reports on forms to be filed with the Commission. SRC Rule 12.2 contains requirements concerning the incorporation of documents by reference. SRC Rule 68, as amended contains requirements for the content of financial statements to be filed with the Commission as part of this report. These Rules should be carefully read and observed in the preparation and filing of reports on this Form.

(c) Preparation of Report.

(1) This is not a blank form to be filled in. It is a guide to be used in preparing the report in accordance with SRC Rule 72.1. The Commission does not furnish blank copies of this Form to be filled in for filing.

(2) These general instructions are not to be filed with the report. The instructions to the various captions of the Form are also to be omitted from the report as filed. The report shall contain the numbers and captions of all applicable items, but the text of such items may be omitted, provided the answers thereto are prepared in the manner specified in SRC Rule 72.1. All items that are not required to be answered in a particular report may be omitted and no reference thereto need be made in the report. All instructions shall be omitted.

(d) Incorporation by Reference

In accordance with the provisions of SRC Rule 12.2, the information called for by Parts I and II of this Form may, at the issuer's option, be incorporated by reference from the issuer's annual report to securities holders provided the information called for in this report is included therein.

(e) Signature and Filing of Report

(1) Three (3) complete copies of the report, including any financial statements, exhibits or other papers or documents filed as a part thereof, shall be filed with the Commission. At least one complete copy of the report, including any financial statements, exhibits or other papers or documents filed as a part thereof, shall, if any class of the issuer's securities are listed in a Stock Exchange, simultaneously be filed with that Exchange.

(2) At least one complete copy of the report filed with the Commission and where applicable, one such copy filed with the Exchange, shall be manually signed on the issuer's behalf by its principal executive officer, its principal operating officer, its principal financial officer, its comptroller, its principal accounting officer, its corporate secretary or persons performing similar functions. Any person who occupies more than one of the specified positions shall indicate the capacity in which he signs the report. Copies not manually signed shall bear typed or printed signatures. See also paragraphs (2) and (3) of SRC Rule 72.1 concerning copies, binding, signatures, paper, printing, language and pagination. If the issuer is a foreign person, the report shall also be signed by its resident agent in the Philippines.

(3) Issuers are requested to indicate in a transmittal letter with SEC FORM 17-A whether the financial statements in the report reflect a change from the preceding year in any accounting principles or practices or in the methods of application of those principles or practices.

(f) Integrated Reports to Security Holders.

(1) Annual reports to security holders may be combined with the required information of SEC Form 17-A and will be suitable for filing with the Commission if the following conditions are satisfied:

(A) The combined report contains full and complete answers to all items required by SEC Form 17-A. When responses to a certain item of required disclosure are separated within the combined report, an appropriate cross-reference should be made; and

(B) The cover page and the required signatures are included.

(2) When the provisions of paragraph (f)(1) are taken advantage of, as appropriate, a cross reference sheet should be filed indicating the location of information required by the items of the Form.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, *AS AMENDED*

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2012**

2. SEC Identification Number **A199701584** 3. BIR Tax Identification No. **000-005-469-606**

4. Exact name of issuer as specified in its charter **PHILIPPINE BUSINESS BANK, INC.**

5. **CALOOCAN**
Province, Country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

7. **350 Rizal Avenue corner 8th Avenue Gracepark, Caloocan City** **1400**
Address of principal office Postal Code

8. **(02) 363-33-33**
Issuer's telephone number, including area code

9. **Not Applicable**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	**343,333,400**

11. Are any or all of these securities listed on a Stock Exchange.

Yes [x] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

PHILIPPINE STOCK EXCHANGE **COMMON SHARES OF STOCK**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [x] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ] No [x]

13. The aggregate market value as of March 27, 2013 of the voting stock held by non-affiliates **Php 3,469,940,875.10**

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [ ] No [x] NOT APPLICABLE

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;

(b) Any information statement filed pursuant to SRC Rule 20;

(c) Any prospectus filed pursuant to SRC Rule 8.1.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Overview

PBB was incorporated as a Philippine corporation and registered with the SEC on January 28, 1997 as "Total Savings Bank" and was granted the authority to operate as a thrift bank under the MB Resolution No. 29 dated January 8, 1997. The BSP issued a Certificate of Authority on February 6, 1997. On December 16, 1997, the SEC approved the change of corporate name of the Bank to "Philippine Business Bank (A Savings Bank)", which the shareholders believe better reflects the Bank's business thrust and focus.

The Bank's focus is to become the bank of choice of the SME market segment. The BSP defines small and medium enterprises to be any business concern with assets between Php3 million to Php100 million, excluding the land value on which the entity's office, plant and equipment are situated.

This focus on the SME market is driven by the size and potential of this particular market. Based on statistics of the country's Department of Trade and Industry, in 2009, SMEs contributed approximately 32 per cent of the employment, 36 per cent to sales and 25 per cent of export revenues of the Philippines. The Bank believes that the SME segment is the major source of entrepreneurship and economic dynamism which provides trade, manufacturing and outsourcing and services and helps contribute to community and local development. Lastly, the Bank believes that the SME segment can be considered underserved with most financial institutions focusing on the banking requirements of large corporations and/or the consumer sector.

To become the bank of choice of the SME market, PBB has increased its branch presence in several commercial and industrial centers of the country and recruited branch and account officers with extensive client networks in these specific communities. The Bank's network grew from two (2) branches in 1997 to 78 branches as of December 31, 2012 with most branches located in areas with high concentration of small and medium businesses such as Caloocan, Malabon, Navotas, Valenzuela and Quezon City as well as in highly urbanized cities outside Metro Manila such as Cebu, Davao and Bacolod. PBB believes that client proximity, understanding of its targets' banking requirements, the reputation of its branch and account management staff within their respective communities, and the overall reputation of PBB, are among the key factors which have driven and will continue to drive its growth.

Principal Business Activities

PBB provides close to a full range of banking services and products, including cash management, retail and corporate lending, deposit products, international trade finance, treasury and trust products.

Reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

In April 2008, the Bank entered into a purchase agreement with the shareholders of Kabalikat Rural Bank, Inc. ("KRBI") under which the Bank will purchase 100 per cent of the stock, assets, and goodwill of KRBI subject to the approval of a merger plan by the BSP and SEC. Through this transaction, PBB acquired the five (5) existing branches of KRBI and converted these into thrift bank branches. As an incentive, the BSP granted PBB the right to establish three (3) branches in Restricted Areas and 10 branches in non-restricted areas of the country. In October 2008 and March 2012, the BSP and the SEC respectively approved the merger.

Products and Services Offered

PBB is a thrift bank that offers a range of commercial and consumer or retail banking products, trust services, and other related financial services such as mail and telegraphic transfers, safety deposit facilities, payment services, among others.

Commercial banking services include term loans, working capital credit lines, bills purchase and discounting lines. PBB is the first thrift bank to be allowed by the BSP to issue foreign currency denominated letters of credit. The Bank also offers specialized loans for agriculture and special programs of the Development Bank of the Philippines, the Social Security System, and other agencies.

Consumer banking loans include auto financing, home financing, and salary or personal loans.

As part of its commercial and consumer banking activities, PBB offers various deposit products to both its commercial and individual clients. These products include Peso denominated current and savings accounts, foreign currency denominated savings accounts and both Peso and foreign currency time deposits.

The Bank's treasury manages the liquidity of PBB and is a key component in revenue and income generation through its investment and trading activities.

Products and services offered by PBB's trust operations include PBB's "Diamond Fund", a unit investment trust fund, investment management arrangements for both individual and commercial clients, escrow agency, security, safekeeping and depository arrangements, a funds management of employee benefit and pre-need plans, among other typical trust products and services.

Distribution methods of the products or services

The Bank utilizes branches for the distribution of its deposit products. As for its loan products, the Bank has an Account Management Group and located in its Head Office and the Branch Lending Group with account officers in some branches. The Bank's Trust products are handled by its Trust Department while Treasury products are marketed by its Treasury Marketing and Sales Department of the Treasury Group

Competition

PBB attributes its strong growth and attractive financial performance to the following competitive strengths:

1. Strong presence, reputation, and attention to its SME customers

The Bank believes that its deliberate focus on serving the banking needs of the SME market segment is a key factor for its successful growth over its history. Aside from potential size of this market segment, the Bank also believes that the SME segment is largely underserved by most financial institutions with their focus on large companies and the consumer market.

PBB's focus on the SME segment is manifested in its branch strategy, the recruitment of its officers, its business operations and even its corporate culture.

Majority of PBB's branches are located outside of typical commercial and business districts where most banks congregate and are situated in areas with significant SME concentration such as Caloocan, Malabon, Navotas, Valenzuela, Quezon City as well as highly urbanized cities outside Metro Manila such as Cebu, Davao and Bacolod. Aside from targeting such areas, PBB has also significantly increased the number of its branches over the past years.

The Bank believes the success of this branch strategy is shown in its increased business performance. PBB's branches have increased over the past three (3) years from 55 in 2010 to 78 as of December 31, 2012 coinciding with the growth in the PBB's deposit base from Php17.587 billion in 2010 to Php21.194 billion in 2011 and Php 26.448 in December 31, 2012 and its portfolio of loans and receivables from Php13.369 billion in 2010, Php16.704 billion in 2011 and Php 20.869 billion as of December 31, 2012.

Of equal importance to PBB's current and prospective growth is the staffing of these branches. The Bank aggressively recruits branch managers and account officers who have established good relationships and solid reputation within each branch's catchment area. Through this recruitment strategy, PBB has been able to accelerate its client acquisition.

In line with its view that the SME clients are relatively unsophisticated with respect to bank transactions and require specific attention, PBB has also deliberately focused on providing its banking services through its branch officers and staff. This contrasts significantly with the trend to automate banking transactions. PBB believes that customer interaction and service will remain key ingredients for its growth.

2. Effective capital utilization

Aside from interest income from its loan products, PBB is focused on earnings generation from its treasury operations. PBB's treasury operations, aside from ensuring liquidity and managing liquidity risk, is and will remain actively involved in the trading of domestic treasury debt, corporate bonds, foreign currency denominated bonds and other financial instruments and is expected to generate income especially during periods of weak loan demand or excess liquidity arising from branch deposit taking efforts.

To this end, in 2009, PBB recruited officers and personnel with extensive treasury and trading experience and built up its securities portfolio. In 2010, PBB's AFS and trading portfolio amounted to Php6.623 billion. As of December 31, 2012, the AFS holdings and other trading portfolio (FVPL) of the Bank reached Php5.784 billion.

3. Solid lending policies and practices

Despite the growth of PBB's loans and receivables, the Bank has successfully managed credit risk through its internal credit risk rating system, loan evaluation and approval practices, and other formal credit risk mitigating processes. Supplementing these formal processes is PBB's relationship and community based approach to lending, which takes advantage of branch and account officers' position in their respective communities to establish prospective borrowers' reputation, business performance and risks, and other credit evaluation factors.

The Bank believes that the advantages brought about by these processes have equal weight to its formal credit evaluation efforts, especially for prospective SME clients.

Over the past three (3) years, PBB's average NPL ratio was at 2.55 per cent in 2010, 2.99 per cent in 2011 and 3.09 per cent in 2012. In comparison, NPL ratio of CTB members was at 7.3 per cent in 2010, and 5.76 per cent in 2011.

4. Sound balance sheet well positioned for growth

PBB has consistently maintained a sound balance sheet which positions the Bank for future growth. Liquidity, as measured by the ratio of loans to deposit, in 2010 and 2011 was at 63.75 per cent and 64.21 per cent, respectively. In comparison, the average ratio of loans to deposit of members of the CTB, over the same years, was at 73.8 per cent and 78.3 per cent, respectively.

5. Resilient capital is among the foundations to PBB's increasing size

PBB's Total CAR and Tier 1 CAR was at 22.77 per cent and 21.64 per cent, 26.44per cent and 25.41 per cent, and 18.86 per cent and 18.17 per cent for the years ending December 2010, 2011, and 2012, respectively, consistently and significantly above the 10 per cent minimum requirement of the BSP. In comparison, average CAR of members of the CTB, in 2010 and 2011 was at 12.6 per cent, and 15.5 per cent, respectively.

With its capital structure, the Bank is well positioned to undertake future fund raising efforts after the Offer, to finance further expansion plans and comply with the capital adequacy requirement set by the BSP.

6. Highly competent and well experienced management team

PBB is managed and ran by officers who have extensive experience in banking operations from leading universal and commercial banks in the country. On average, each of the Bank's senior officers possess about 27 years of experience in banking and finance. Similarly, each of PBB's branch officers has, on average, a total of 15 years of experience in branch banking.

With the experience and track record of officers, from the head office and throughout its branch network, the Bank is assured that it possesses extensive knowledge of all aspects of the banking industry, strong relationships with other banks and financial institutions, and familiarity with the Bank's target clients and their banking needs.

Sources and availability of raw materials and the names of principal suppliers

This is not relevant to the operations of the Bank.

Customer Concentration

The Bank has a diversified customer base and there is no concentration of business in major client group. The Bank is not dependent on any single customer that its loss would have material adverse effect on the Bank.

Transactions with and/or dependence on related parties

Although the Bank deals with related parties subject to existing rules on related party transactions, there is no dependency on any of its related parties.

Patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements held

The Bank has registered with the Intellectual Property Office of the Department of Trade and Industry its New Bank Logo and ATM Business Card Design. The Bank has not been involved in any disputes with respect intellectual property rights of other parties.

Government approval of principal products or services

The Bank has no outstanding application subject to government approval.

Effect of existing or probable governmental regulations on the business

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examinations of banks.

Amount spent on research and development activities

The Bank has a department in-charge of new products which reports to the Branch Banking Group under the CEO. This department has two personnel – one officer and one staff. Its expense is only limited to regular salary of the employees and is very minimal.

Costs and effects of compliance with environmental laws

Not applicable.

Employees

As of March 31, 2013, the Bank has a total of 773 employees broken down into the following categories:

Executives	63
Managers – Operations and Support	163
Managers – Branch / Marketing	116
Staff	431
Total	**773**

There is no collective bargaining agreement between the Bank and any of its employees. None of the Bank's employees are affiliated with any labor union.

Financial Risk Management Objectives and Policies

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity, and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events, including legal risk but excludes reputational risk.

Although risks are inherent in the Bank's activities, these are carefully managed through a process of identification, measurement, and monitoring subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

Credit risk pertains to the risk to income or capital due to non-payment by borrowers or counterparties of their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the Board of Directors (BOD). Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. The Risk Management Center, as guided by the Risk Committee (Riskcom which is a Board Committee), performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the RiskCom.

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its assets and liabilities, embedded optionality in the loans and deposits due to pre-terminations, and potential cash run offs arising from changes in overall liquidity and funding conditions in the market. Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

To mitigate interest rate risk, the Bank follows a prudent policy on managing assets and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the Earnings-at-Risk (EAR) Limit which is reviewed regularly. The earnings-at-risk is the maximum estimated loss on interest income as a result of mismatches in the repricing structure of the Bank's assets and liabilities and on the volatility of interest rates.

For interest rate risk in the trading portfolio, the Bank utilizes the value-at-risk (VaR) methodology and employs BOD-approved VaR and loss limits to mitigate risks. In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the RiskCom prior to the confirmation by the BOD.

Item 2. Properties

The Bank owns the land and building on which its head office is located. This head office is located four-story building on a 1,300 square meter property along Rizal Avenue, Grace Park, Caloocan City. The Bank also owns the land and premises on which four (4) of its branches are located, specifically, PBB's branches in Paso de Blas in Valenzuela, in Imus, Cavite, in Luwasan, Muzon, in San Jose del Monte City, Bulacan, and in General Tinio, Nueva Ecija.

The land and premises on which PBB's branches other branches are located are leased from various property owners. Such lease agreements are typically long term in nature, with durations of five (5) years or more. The Bank has entered into lease agreements with the following parties:

PBB Branch	Lessor	Lease Expiry		Basic Rental
		Commencement date	Expiry date	
Binondo Corporate Center	Philippine-Chinese Charitable Association, Inc.	Oct 1, 2012	Sep 30, 2018	93,170.00
Elcano	Bonifacia Capalad	Sep 1, 2004	Sep 1, 2014	40,000.00
Carmen Planas	Zaldra Realty Development Corporation	Jan 1, 2005	Dec 31, 2014	70,000.00
Pasay	Mayson Realty Corporation	Mar 14, 2013	Mar 14, 2018	45,796.00
Padre Algue	Keppeland Realty Corporation	Nov 17, 2009	Nov 16, 2014	68,400.00
Quintin Paredes	Downtown Realty Investment Corporation	Jul 24, 2010	Jul 24, 2015	136,500.00
Adriatico-Malate	Evangeline T. Lim	Feb 3, 2012	Feb 3, 2017	117,000.00
Pedro Gil-Paco	Wesco General Merchandise	Jul 27, 2012	Jul 27, 2017	85,600.00
Valenzuela	PSL Prime Realty Corporation	Aug 1, 2008	Aug 1, 2013	70,000.00
Kaybiga	Guilmar Marble Corporation	Oct 21, 2010	Oct 20, 2015	33,950.00
Navotas	Megarite Development Corporation	Jan 1, 2010	Dec 31, 2014	32,400.00
Malabon	J2NS Property Development, Inc.	Aug 1, 2008	Aug 1, 2013	49,912.50
Mabini C-3	Marea Ventures Corp.	Jun 1, 2009	May 31, 2014	50,000.00
Samson Road	Oscar F. Tirona	Jul 24, 2009	Jul 23, 2014	38,000.00
Camarin	Luwell Realty & Development Corporation	Jun 1, 2010	May 31, 2015	48,150.00
Karuhatan -Malinta	Hermogenes P. Santiago	Feb 8, 2011	Feb 8, 2016	45,000.00
Malabon-Rizal Ave.	Flaviano G. Felizardo III	Aug 18, 2011	Aug 18, 2026	40,000.00
Meycauayan	I.S. Properties, Inc.	Jan 1, 2011	Jan 1, 2016	60,000.00
Sta. Maria	Angelika Halili Cruz	Oct 1, 2012	Sep 30, 2017	38,828.13
Baliuag	Danilo S. Santos	Jan 1, 2007	Dec 31, 2017	45,000.00
Malolos	Carmencita de Castro	Apr 15, 2009	Apr 14, 2014	40,000.00
Banawe	Solmac Marketing Inc.	May 1, 2009	Apr 30, 2014	91,052.50
Edsa-Caloocan	Solmac Marketing Inc.	Apr 1, 2007	Mar 31, 2017	42,100.00
Del Monte	Cheung's Development Corporation	Jan 1, 2010	Dec 31, 2014	50,952.39
Cubao	RSAG Building Management Services	Aug 15, 2010	Aug 15, 2015	45,000.00
Novaliches	Luwell Realty & Development Corporation	Oct 1, 2009	Sep 30, 2014	45,000.00
Commonwealth	Frederick C. Ibay	Dec 1, 2011	Dec 1, 2016	60,000.00
Congressional Ave.-Q.C.	Holistic Management Inc.	Mar 31, 2012	Dec 31, 2017	70,000.00
West Avenue	Fiorino Development Corporation	Jun 23, 2012	Jun 23, 2017	52,831.25
Roosevelt	Henry Tan Villasi	Nov 15, 2012	Nov 14, 2017	28,421.10
Marikina	Heirs of Amelia M. Diguanco	Oct 1, 2011	Sep 30, 2016	65,000.00
Cainta	Rosmil Realty Development Corporation	Mar 1, 2007	Mar 1, 2017	31,200.00
Antipolo	Megathon Properties, Inc.	Aug 14, 2013	Aug 14, 2018	63,606.60
Antipolo-Masinag	Rikland Property Leasing	Dec 20, 2011	Dec 20, 2016	48,960.00
Makati	AMY Leasing Company	Jan 1, 2009	Jan 1, 2024	100,000.00
The Fort	Megaworld Corporation/Bonifacio West Dev't Corp.	Jul 1, 2008	Jun 30, 2013	115,800.00
Greenhills	LGI Group Corporation	Jun 1, 2012	May 31, 2017	96,900.00
Mandaluyong	Antonio H. Yap	Dec 31, 2011	Dec 31, 2016	85,743.55
Ortigas	Westpoint Industrial Sales Company, Inc.	Jun 15, 2010	Jun 14, 2015	57,500.00
Pasig Blvd.-Kapitolyo	Dhondup Holdings Inc.	Apr 15, 2012	Apr 15, 2017	50,827.00
Las Piñas	Omni Investment Bldg	Feb 27, 2008	Feb 26, 2013	40,348.00
Sucat-Parañaque	Jaka Investments Corporation	Feb 15, 2012	Feb 14, 2017	76,831.50
Madrigal Business Park	Solid Gold Realty Corporation	Aug 26, 2011	Aug 25, 2016	57,750.00
Salcedo Vill.-Makati City	Lacelli International Corporation	Aug 1, 2012	Jul 31, 2017	119,700.00
Dagupan	Wilson Dy	Apr 15, 2002	Apr 14, 2022	50,000.00
Urdaneta	Gold and Chimes Realty Corporation	Feb 1, 2012	Feb 1, 2022	64,000.00
La Union	Virginia Rondaris Mendoza	Aug 15, 2009	Aug 15, 2014	50,000.00
Baguio	Atty. Ernesto Ll. De los Santos	Aug 25, 2009	Aug 25, 2014	71,250.00
Tarlac	Sps. Co Ting Chu & Leticia Tan Co	Jul 16, 2009	Jun 30, 2014	55,000.00
Laoag City	Laoag Allied Realty and Development	Oct 1, 2011	Sep 30, 2016	70,000.00
Cabanatuan	Angel S. Pascual	Feb 15, 2009	Jan 15, 2014	50,000.00
Gapan	Veronica, Albino, Digna, Gregorio, Elizabeth(all surnamed Del Fonso)	Nov 1, 2008	Nov 1, 2023	27,300.00
San Fernando	JTG Sears Realty Corporation	Apr 1, 2012	April 31, 2017	24,000.00
Angeles	AJV Investment Holdings, Inc.	Jun 30, 2008	Jun 30, 2013	67,500.00
Olongapo City	Maria Melinda Tan Chua	May 2011	May 2016	70,000.00
Muntinlupa	Sps. Sturnino L. Baccay & Katherine C. Baccay	Oct 1, 2012	Oct 1, 2017	54,824.00
Calamba	Josie T. Lu	Jan 1, 2011	Dec 31, 2015	60,000.00
Batangas	Sps. Jose Q. and Helen S. Cifra	Aug 1, 2012	Aug 1, 2017	60,000.00
Sta. Rosa	Philippine Seven Corporation(Sub Lessor)	Mar 1, 2010	Feb 28, 2013	60,000.00
Naga	Peterson Resources and Holding Inc.	Mar 1, 2010	Feb 28, 2015	36,000.00
Lipa City	Reynato D. Goce	Aug 15, 2012	Aug 15, 2017	66,110.00
Legazpi City	Natividad M. Sison	Aug 15, 2012	Aug 15, 2017	50,000.00
Puerto Princesa	Sps. Allan and Dawn Carlos	Jul 1, 2012	Jul 1, 2018	71,000.00
Lucena City	Amalia Garana-Italia	Nov 2, 2012	Nov 2, 2017	45,000.00
Cebu, Downtown	Lianting Development Corporation	May 15, 2009	May 14, 2014	50,000.00
Mandaue	Lester & Lesley To Chip	Apr 1, 2009	Mar 31, 2014	50,000.00
Davao	JM Agro Industrial Trading Corporation	June 2009	June 2019	60,000.00
Cagayan de Oro	Domingo N. Surposa, Jr.	Jul 1, 2009	Jun 30, 2014	45,000.00
Bacolod	The Philippine American Life and General Ins. Co.	Nov 1, 2009	Oct 31, 2014	52,615.80
Iloilo	Manuel V. Uy	Jan 16, 2010	Jan 15, 2015	28,000.00
General Santos	Firenzo Property Dev't/GSC Suncity Suites	Sep 16, 2010	Sep 16, 2015	60,000.00
Bajada, Davao	Davao City Chamber of Commerce & Industry Inc.	Dec 1, 2010	Nov 30, 2015	37,500.00
Lapu-Lapu City, Cebu	Antonio Amistad	Feb 15, 2011	Feb 15, 2016	56,250.00
Tagbilaran	EB Gallares Properties Associates, Inc.	Sep 16, 2012	Oct 31, 2017	70,045.50

Based on prevailing costs, the Bank estimates that the development of a new branch will cost approximately between Php5 million to Php10 million for leasehold improvements, IT infrastructure, and miscellaneous supplies. Leasehold improvements of a branch are typically amortized over the term of the lease while IT investments are amortized over a period of five (5) years.

The Bank believes all its facilities and properties are currently in good condition.

Item 3. Legal Proceedings

The Bank has no proceedings that involves a claim for damages that exceed 10% of the current assets of the Bank.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to vote a security holders, through the solicitation of proxies or otherwise.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

Market Information

The common shares of PBB was listed last February 19, 2013. The high and low price of the Registrant's shares as of April 15, 2013 were Php 37.00 and Php36.20 respectively.

Holders

As of the February 19, 2013, PBB's public listing date, the following are the holders of record of the Bank's common shares as set forth in the following table:

Shareholder	No. Of Shares Subscribed	% Ownership
Alfredo M. Yao	127,913,766	52.85%
Zest-O Corporation	86,428,226	35.71%
Francis T. Lee	24,200,000	10.00%
Leticia M. Yao	864,286	0.36%
Armando M. Yao	864,286	0.36%
Erlinda M. Yao	864,286	0.36%
Jeffrey S. Yao	864,286	0.36%
Rolando R. Avante	58	-
Amador T. Vallejos, Jr.	576	-
Paterno H. Dizon	57	-
Honorio O. Reyes- Lao	58	-
Benjamin R. Sta. Catalina, Jr.	57	-
Peter N. Yap	58	-
Total	242,000,000	100.00%

The following persons own at least five per cent (5%) of the Bank's outstanding common shares:

Title of Class	Name, Address of Record Owners and relationship with the issuer	Name of Beneficial Owner and relationship with record owner	Citizenship	No. of shares held	Per cent of class
Common	Alfredo M. Yao 84 Dapitan St. corner Banawe St. Sta. Mesa Heights, Quezon City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	127,913,766	52.86%
Common	Zest-O Corporation 574 EDSA Caloocan City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	86,428,226	35.71%

Common	Francis T. Lee 15 Masigla St. East Avenue, Quezon City Chairman of the Board	The record owner is the beneficial owner of the shares indicated	Filipino	24,200,000	10%
Total Common Shares				238,541,992	98.57%

On November 16, 2012, the SEC approved PBB's application for the amendment of its articles of incorporation to increase its authorized capital stock from Php3.0 billion to Php10.0 billion and for a decrease in par value from Php100 to P10.00.

Dividends

PBB is authorized under Philippine laws to declare dividends, subject to certain requirements. The Board is authorized to declare dividends only from its unrestricted retained earnings and these dividends may be payable in cash, shares or property, or a combination of thereof as may be determined by the Board. A cash dividend declaration does not require any further approval from shareholders. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of PBB's outstanding capital stock. The Board may not declare dividends which will impair its capital.

Pursuant to Republic Act 8791 and as provided for in the Manual of Regulations Banks, PBB cannot declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. PBB cannot likewise declare dividends, if at the time of its declaration it has not complied with the following:

a) Its clearing account with BSP is not overdrawn;

b) BSP's liquidity floor requirement for government funds;

c) BSP's minimum capitalization requirement and risk-based capital ratio;

d) Prescribed EFCDU/FCDU cover consisting of 30 per cent liquidity cover and 100 percent asset cover

e) Statutory and liquidity reserves requirement;

f) It has no past due loans or accommodation with BSP or any institutions;

g) It has no net losses from operations in any one or two fiscal years immediately preceding the date of dividend declaration;

h) It has not committed any of the major violations enumerated in the Manual.

The Manual provides that for banks whose shares are listed in the Philippine Stock Exchange, the bank may give immediate notice of such dividend declaration to SEC and PSE; provided that no record date shall be fixed for such dividend declaration pending verification by the appropriate department of the BSP.

As of this date the Bank has not adopted a specific dividend policy which defines a minimum percentage of net earnings to be distributed to its common shareholders.

PBB did not declare dividends for its common shares for the years ended 2009 to 2011.

On July 16, 2012, the Bank's shareholders and Board of Directors approved the declaration of stock dividends amounting to Php2.0 billion from its unrestricted retained earnings. In the same meeting, the Board also approved the payment of cash dividends to the preferred shareholders in the total amount of Php100.35 million. Payment of these dividends were approved by BSP and SEC. On November 16, 2012, the Bank obtained approval for the issuance of 200,000,000 new common shares each at a par value of Php10.00, in relation to this stock dividend declaration and the payment of cash dividends to the preferred stockholders.

There were no recent sales of unregistered or exempt Securities, including recent issuance of securities constituting an exempt transaction.

There has been no Stock Options offered by the Bank.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Overview

PBB is a savings bank whose principal banking activities are focused on the corporate and SME markets. Among the Bank's principal products are corporate and consumer loans, deposit products, treasury and trust products and trade financing, among others. The Bank was formed in 1997 and today, has a network of **79**branches and 48 ATMs located all over the country. In 2012, The Bank was granted 15 licenses to establish branches in restricted areas and five (5) licenses to establish branches in non-restricted areas of the country.

Based on Chamber of Thrift Banks ("CTB") statistics as of June 30,2012, the Bank is ranked 5th in terms of assets, loans and capital out of a total of 55 CTB members.

As of December 31, 2012, the Bank's Tier 1 capital adequacy ratio and total capital adequacy ratio was 18.17per cent and 18.86 per cent, respectively. Return on assets and return on equity were 2.2 per cent and 16.2 per cent, respectively .

Factors Affecting the Bank's Results of Operations

Set out below are the most significant factors which have affected the Bank's operating results in the past and which are expected to affect the Bank's results in the future. Factors other than those set forth below may also have a significant impact on the Bank's results of operations and financial condition in the future.

Interest Rates

Fluctuations in the interest rates in the market can have a material impact on the Bank by affecting its interest income, cost of funding as well as the general performance of the Bank's loan portfolio and other assets. The profitability of the Bank depends on its ability to manage its assets and liabilities particularly during periods when interest rates are volatile. An increase in interest rates may adversely affect earnings as it results in a higher cost of funds for the Bank and portfolio value of its assets.

Regulatory Environment

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examinations of banks.

Competition

The Philippine banking sector is highly competitive and the Bank is subject to significant levels of competition from domestic and foreign banks. These banks may have more capital and other financial resources, larger branch network or higher brand recognition, among others, than the Bank. Some financial institutions may be able to offer more products and services, have higher lending limits, offer lower lending rate or possess stronger balance sheets. Competition has affected and will continue to affect the Bank's funding costs as well as the ability of the Bank to market its products and services and implement its business plans and adversely impact PBB's results of operations and financial condition.

Philippine and global economic environment

The Bank's business and operations and assets are based in the Philippines and hence, the results of operations and performance and quality and growth of PBB's assets depend, to a large extent, on the performance of the Philippine economy. The Philippine economy, in turn, has also been adversely affected by the downturn in the global financial markets as well as the slowdown in the U.S. economy. Monetary policies worldwide formulated in response to the financial crisis resulted in a decline in interest rates. Interest rates in the Philippines have recently declined which could affect the Bank's income and margins.

Key Performance Indicators

The management of PBB considers the following as key performance indicators of the Bank:

1. Return on Average Equity (ROEA)	Refers to (Net Income (Loss)/ Ave. Stockholders' Equity), used to measure the profitability of the stockholders' investments.
2. Return on Average Assets (ROAA)	Refers to (Net Income (Loss)) Average Total Assets), used to measure the effective use of the Bank's assets.
3. Capital Adequacy Ratio (CAR)	Refers to (Total Qualifying Capital/Total Risk-weighted Assets), measures the ability of the Bank to absorb normal, potential losses from its risk assets. The BSP has set a minimum ratio of 10 per cent that PBB needs to comply with.
4. Loans – to-Deposits Ratio (BSP formula)	Refers to (Gross Loans/ Total Deposits), measures the Bank's efficiency in the deployment of available funds from deposits. The BSP has set a minimum ratio of 75 per cent that PBB needs to comply with.
5. NPL Ratio (BSP formula)	Refers to (Total NPL/Gross Loans), measures the Bank's asset quality.

The following table shows the Top 5 key performance indicators for the past three (3) calendar years ending December 31 ,2012:

Performance Indicator	2010	2011	2012
ROAE	32.70%	24.30%	16.2%
ROAA	3.50%	3.50%	2.2%
CAR	22.77%	26.44%	18.86%

Performance Indicator	2010	2011	2012
Loans- Deposit Ratio (BSP Formula)	97.43	106.67	109.95%
NPL Ratio (BSP Formula)	2.55%	2.99	3.09%

Critical Accounting Policies

For information on the Bank's significant accounting judgments and estimates, please refer to notes 2 and 3 of the Bank's financial statements included as attachment of SEC17-A.

Description of Comprehensive Statement of Income

Revenues

Interest Income - Interest income is interest generated from PBB's loans and receivables. The Bank also generates interest income from amounts due from other banks, investment securities and securities purchased under resale agreements.

Interest Expense - Interest expense refers to interest paid or accrued on deposits, bills payable and other fund borrowings.

Net Interest Income - Net interest income is equal to interest income after deducting interest expense.

Impairment Losses - Impairment losses refer to estimated losses in the Bank's loan portfolio, investment securities, investment properties and other risk assets.

Other Income

Other income is composed of the following:

Trading gains – net - This line item comprises results arising from trading activities which include gains and losses from changes in fair value of financial assets held for trading as well as gains from the sale of trading and investment securities.

Services charges, fees and commissions - The Bank earns service charges, fees and commissions from various financial services it provides to its customers. These fees include investment fund fees, custodian fees, commission income, credit related fees, asset management fees, portfolio and advisory fees.

Miscellaneous Income - Miscellaneous income also comprises foreign exchange gain, gain on asset foreclosures and dacion transactions, trust fees, gain on sale of assets and miscellaneous items.

Other Expenses

Other expenses are the Bank's general and administrative expenses composed primarily of salaries and employee benefits, taxes and licenses, rent and fees, depreciation and amortization and other operating costs.

Tax Expense

Tax expense relates mainly to the corporate income tax payable by the Bank which is composed of a two per cent (2%) minimum corporate income tax and a regular income tax of 30 per cent. The Bank is also subject to final taxes of 7.5 per cent (on the Bank's FCDU deposits with other institutions), 10 per cent (on onshore income from FCDU transactions), and 20 per cent (final withholding tax on tax-paid income).

Results of Operations

For the period ending December 31, 2012 compared with the period ending December 31, 2011

Interest Income

PBB's interest income increased from Php1.657bn to Php1.706bn due mainly to the increased in the volume of loans booked during the period and the consistent yields at an average effective interest rate of 2%-22% p.a. Loan volume increased from Php16.704bn in 2011 to Php20.869bn in 2012. Interest income from investment securities decreased due to general market conditions of lower interest rates.

Interest Expenses

Total interest expense increased from Php536.224m to Php608.049m or Php 71.825 or 13.39% due to the increased in the overall deposit generated of 24.79 % specifically on time deposit holdings in the last quarter of the year. This represents higher interest costs on increased volume amounting to Php17.512bn from 2011 volume of Php12.143bn or 44.21% increase in high costs deposit level. The low costs deposits were stable to decreasing at Php 8.935bn from last years Php 9.051bn.

Net interest income

Like most banks, PBB was not spared from the thinning effects of banks NIMS's due to the prevailing low interest rate environment that has put pressure on the industry's NIMS's. PBB NIM's rate fell to 3.9% from 4.7% . As a result net interested income slightly declined to Php 1.073bn from Php 1.085bn .

Impairment Losses

The bank continued to set aside certain mpairment losses increased by 44.83%, the bank in its objective to cover its non performing loans increased it loan loss provisions from Php 50.000m in 2011 to Php72.417m . This makes up to more than 92% cover for its non performing loans during the year 2012.

Other Income

PBB's other income increased by 15.98% from the prior year's Php762.951m to Php884.944m, due mainly to trading income of Php713m from treasury activities . The bank was able to take the market opportunities and realize exceptional gains from it investment portfolio.

Other Expenses

Other Expenses increased by 23.4% from Php951.927m to Php1,174.705 bn in 2012. The increase in operating expenses , specific to occupancy, salaries and wages, insurance, travelling and depreciation were due to the branch expansion program of the bank. Onetime expenses such as taxes and licenses were due to the banks preparation for the listing of its shares that necessitates the payment of applicable fees to the Securities and Exchange of Commission to raise its authorized capital and the necessary documentary stamp taxes related to it. All of this amounted to Php80.0m

Net Profit

As a result PBB's net profit decreased from Php 746.947m to Php654.285m or Php92.69m or 12.40% decreased from 2011.

For the year ended December 31, 2011 compared with the year ended December 31, 2010

Revenues and Other Income

Interest Income

PBB's interest income increased 22.01 per cent to Php1,657.97 million for the year ended December 31, 2011 from Php1,358.84 million for the year ended December 31, 2010 primarily due to a substantial increase in investment securities held by the Bank as well the increase in the Bank's portfolio of loans and receivables

Interest Expense

Interest expense likewise increased 27.53 per cent to Php572.46 million for the year ended December 31, 2011 from Php448.89 million for the year ended December 31, 2010 primarily as a result of higher deposit liabilities brought about by the growth in deposits from Php17,587.41 million to Php21,194.99 million over the period in review.

Net Interest Income

Net interest income increased 19.29 per cent to Php1,085.51 million for 2011 from Php909.95 million in 2010 as the Bank maintained interest margins on loans and despite the increased interest expenses brought about by the growth in deposit liabilities.

Impairment Losses

Provision for impairment losses decreased to Php50.00 million for the year ended December 31, 2011 from Php199.32 million for the year ended December 31, 2010 as a result of an improvement in the quality of the Bank's loans arising from tighter credit controls and credit monitoring policies in place.

Other Income

PBB's other income decreased by 2.33 per cent to Php762.95 million for the year ended December 31, 2011 from Php780.72 million for the year ended December 31, 2010 due to a slight decrease in trading gains.

Other Expenses

PBB's Other Expenses increased by 18.21 per cent to Php951.93 million for the year ended December 31, 2011 from Php805.32 million for the year ended December 31, 2010, primarily due to manpower and occupancy costs arising from an addition of six (6) new branches in 2010. In addition, the Bank incurred due diligence and other transaction expenses in connection with the acquisition of KRBI.

Tax Expense

Tax expense for the year increased to Php99.56 million compared to Php2,74 million for the year ended December 31, 2010 due to the mix of the Bank's revenue for the period. In 2010, approximately 46.33 per cent of the Bank's gross revenue were subject to final tax or were tax-exempt. In comparison, in 2011, only 26.42 per cent of gross revenues were subject to final tax or were tax-exempt and the tax effect of the deferred income due to the loan loss provisioning.

Net Profit

As a result of the foregoing factors, PBB's net income increased 9.32 per cent to Php746.97 million for the year ended December 31, 2011 from Php683.28 million in the previous year.

Liquidity

For the year ended December 31, 2012 and for the years ended December 31, 2010 and 2011, the Bank's principal sources of liquidity were funds from operations including deposits. As of December 31, 2012, the Bank had cash and cash equivalents of Php4,509.17 bn.

The Bank expects to fund its operations, capital expenditure and investments over the next 12 months from operating cash flows and the net proceeds from the expected IPO. The Bank's other sources of funding are its credit lines with other financial institutions including availment of BSP's re-discounting facility when necessary and depending on market conditions.

Cash Flows

The following table sets forth selected information from PBB's statements of cash flows for the periods indicated:

	For period ended December 31		
	2010 (audited)	2011 (audited)	2012 (audited)
Cash and cash equivalents, beginning of the year	1,220.37	2,181.64	4,801.09
Net cash provided by (used in) operating activities	4,308.6	2,361.17	(942.79)
Net cash provided by (used in) investing activities	(3,345.62)	1,349.8	(267.79)
Net cash provided by (used in) financing activities	(1.71)	(1,091.52)	918.66
Net increase (decrease) in cash and cash equivalents	961.26	2,619.45	(291.92)
Cash and cash equivalents, end of the year	2,181.64	4,801.09	4509.17

Net Cash Flow Provided By (Used In) Operating Activities

Net cash flow provided by operating activities is composed of deposits generated and loans and receivables. As of December 31, 2012, net cash used in operating activities amounted to Php942.79 million. During the period, the Bank increased its loans and receivables by Php7.269 billion while its deposits grew by Php 5.253 billion. As of the years ended December 31, 2011 and 2010, cash flow from operating activities was Php2.361 billion, Php4.308 billion respectively.

Net Cash Flow Provided By (Used In) Investing Activities

Net cash flow provided by or used in investing activities involves the purchase and sale of available for sale securities and held-to-maturity investments and capital expenditure and proceeds from the disposal of investment and other properties. As of December 31, 2012, net cash used from investing activities amounted to Php267,79 million, with funds generated mainly from the proceeds from sale of investment and other properties amounting to P128.569 million less net acquisitions of bank premises and FFE amounting to P123.371million and net acquisitions of available for sale securities of Php272.99 million. In 2011, cash flow from investing activities amounted to Php1.349 billion with funds generated primarily by the sale of available for sale securities generating Php1.374 billion in funds. For 2010, cash flow used in investing activities amounted to Php3.345 billion. Funds were primarily used for the purchase of available-for-sale securities of Php3.332.15 billion.

Net Cash Flow Provided By (Used In) Financing Activities

Net cash flow provided by financing activities is mainly composed of availments of the Bank's credit lines and stockholders' equity infusion. As of December 31, 2012, PBB recorded net cash provided by financing activities of Php918.66 million with funds arising from the Bank's loan availments. In the same period, the Bank generated funds of Php375.00 million from the payment of subscriptions receivables from its preferred shareholders. As of the years ended December 31, 2011 and 2010, cash flows used in financing activities amounted to Php1.091 billion, Php1.71 million, where funds were used primarily to settle bills payables.

Capital Resources

The Bank is required to comply with the capital adequacy requirements based on the requirements for stand-alone thrift banks under BSP's Circular No. 688 issued in May 26, 2010.

The following table sets out details of the Bank's capital resources and capital adequacy ratios (as reported to the BSP).

Php millions	As of the years ended December 31		
	2010	2011	2012
Tier 1 capital	2,404.77	3,143.80	4,079.78
Tier 2 capital	117	121	180.00
Gross qualifying capital	2,521.77	3,264.8	4,259.78
Less: required deductions	155.49	156.25	226.17
Total qualifying capital	2,366.25	3,108.56	4,033.61
Risk weighted assets	10,392.15	11,757.25	21,389.85
Tier 1 capital ratio	21.64	25.41	18.17
Total capital ratio	22.77	26.44	18.86

Capital Expenditure

The Bank's capital expenditure for the year ended December 31, 2012 was Php 123.371 million while Php 71.418 million was spent for the year ended December 31, 2011. These expenses were comprised of acquisitions of bank premises, furniture, fixture and equipment used mainly for the Bank's expansion program.

PBB estimates its capital expenditure for the entire 2013 at Php400 million used primarily for branch expansion and IT upgrade.

Commitments and Contingent Liabilities

The following is a summary of the Banks commitments and contingent accounts as of December 31, 2012:

In Php millions	2012
Investment management accounts	1,462,371
Outstanding letters of credit	451,024
Trust and other fiduciary accounts	102,542
Unit investment trust fund	14,851
Late deposits / payments received	24,177
Other contingent accounts	622,436
Total	2,653,073

Among the Bank's contingent accounts are the following trust arrangements:

1. Investment Management Arrangement (IMA) - an agency arrangement that involves the prudent investment of funds on behalf of the clients;

2. Trust and Other Fiduciary Accounts (TOFA) include: Living trust, a trust created during the trustors' lifetime and involves the transfer of funds and other assets to a trustee for management and eventual distribution to intended beneficiaries; employee benefit trust, a trust established by a company for the benefit of its employees in addition to salaries or wages; escrow, a three party arrangement whereby the escrow agent is appointed as a disinterested or neutral party to protect the interest of the two parties to the contract; and other fiduciary arrangements;

3. Unit Investment Trust Fund (UITF) – is a pooled fund created to offer investment opportunities to small investors.

Selected information disclosed in the Audited Financial Statements

Reclassification of Available-for-sale securities

On September 11, 2008, the Bank re-classified its investments in debt securities, previously classified under FVTPL and AFS securities, to HTM investments amounting to Php10.8 million and Php2.13 billion, respectively, pursuant to BSP Circular No. 628 which allowed for re-classification of financial assets previously classified as AFS securities due to tainting of HTM investments portfolio back to HTM category for prudential reporting purposes.

The fair value of AFS securities reclassified amounted to P2,130.8million including fair value loss of P36.1 million as of the date of reclassification. The annual effective interest rates of the said re-classified securities are ranges from 3.85% to 8.23%. The unamortized fair value gains related to debt securities previously reclassified from AFS category to HTM investments amounted to P0.2million and P.05million for 2012 and 2011, respectively. These amounts will be amortized over the remaining life of the reclassified investments or recognized to profit upon sale, whichever comes first. Portion of fair value gain in comprehensive income amortized to profit or loss amounted to P.02million and P.03million for 2012 and 2011, respectively. In 2010, portion of fair value loss in comprehensive income amortized to profit or loss amounted to P2.7million. There is no impact to total capital funds had the Bank not made the reclassification in 2008 since the Bank was subsequently tainted on its HTM investments and it reclassified all HTM investments to AFS securities.

As disclosed in the notes to the audited financial statements as of December 31, 2012, AFS securities earned interest of 4.3% to 9.1%, 5.5% to 11.4% and 6.30% to 12% in 2012, 2011 and 2010, respectively.

Management of Liquidity Risks through MCO Limits

Liquidity risk is the risk to income and capital as a result of the Bank failure to fund its commitments as they fall due. The Bank manages its liquidity risk through the monitoring of various liquidity ratios, weekly and regular assessment of liquidity gaps by its Treasury unit, and monthly assessments of the Maximum Cumulative Outflow ("MCO") over specified periods or tenor buckets by the Risk Management Center.. The amount of net inflows which is the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

The Board of Directors establishes, on a periodic basis, liquidity risk and MCO limits, as well as approves contingency and funding plans including the maintenance of unused credit facilities and the use of such contingency funds. The Bank's Treasury unit, its Asset and Liabilities Committee and Risk Management Committee are responsible for the Bank's compliance to the liquidity policies and limits established by the Board of Directors; these same parties also recommend any changes to such policies and limits. As of the date of this Prospectus, PBB is implementing a Php5.0 billion MCO limit on a consolidated basis. The MCO limit is determined by considering the conservative estimate of Bank's sources of funds, its business strategies and historical limit utilization. The Risk Management Committee reports to the Board, on a monthly basis, the utilization of the MCO limit and identifies potential risk areas, including breach of MCO limit.

Trading Gains from Sale of Securities

The Bank reported a trading gains-net of Php713.00million in December 31,2012 and Php594.80 million as of December 31, 2011. The related unrealized fair value gains, presented as part of the Trading Gains-net in the 2012 statement of income, amounted to Php384.450 million and Php 5.720 million in 2011. These are included in the amount reflected as Trading Gains-net in the Bank's statements of income. Realized trading gains from sale of securities amounting to Php713.001million consists of Php621.5 million from available-for-sale securities; Php91.501 million from fair value through profit or loss.

DOSRI Loans under Related Party Transactions

The DOSRI loans as of December 31, 2012 (disclosed under Note 21) pertain to loans to officers and employee and related parties amounting to Php18.787million and to other related interests (SMI Development Corp. , Asiawide Airways and Zest Airways) totaling Php782.053 million. DOSRI loans as of December 31, 2011 wholly pertaining to loans to directors and officers and employees amounted to Php24.209 million and to the related parties amounted to Php235.523million.

Earnings per Share

The earnings per share (EPS) of the Bank as of December 31, 2012 and 2011 is Php2.70 and Php3.09, respectively. The EPS is computed by dividing the net profit of Php 654.28 and Php746.97 million, by the average number of outstanding common shares, as of December 31, 2012 and 2011 respectively, of 242,000,000 common shares.

With the change in par value per share from Php100 to Php10 and the declaration of stock dividends, there was an adjustment in the number of common shares to 242,000,000 in December 31, 21012 from 42,000,000 as of December 31, 2011.

Item 7. Financial Statements

The audited financial statements of the bank are filed as part of this for SEC17-A as “ANNEX A”.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Punong Bayan and Araullo (P &A) , a member firm of Grant Thornton International Limited, has been the bank’s independent accountant for the last seven (7) years and is again recommended for appointment at the scheduled stockholders meeting.

None of the Bank’s external auditors have resigned during the most recent fiscal years (2011 and 2012) or any interim period. In compliance with SEC Memorandum Circular No. 8, Series of 2003, and Amendments to the SRC Rule 68 on the rotation of external auditors or signing partners of a firm every after five(5) years of engagement, Mr. Benjamin P. Valdez was assigned in 2011 as an independent reviewer and partner in charge for the bank replacing Mr. Francis Albalate who was assigned since 2006. Representatives of P& A are expected to be present at the meeting to respond to matters relating to the Auditor’s report on the 2012 financial statements of the bank that maybe pertinently raised during the meeting. Their representatives will be given opportunity to make a statement if they so desire.

The Bank has paid the following fees to P&A and Co relative to the regular and special engagements rendered by the latter that are reasonably related to the performance of the audit review of the Bank’s financial statement :

Audit Fees For	In Php
Dec 31, 2011 (whole year)	721,412.31
Jun 30, 2012	752,640.00
Sep 30, 2012	978,432.00

No other services were rendered by P&A and Co that were not related to the audit and review of the Bank’s financial statements.

There were no disagreements with P&A and Co on accounting and financial disclosures.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

The following individuals are members of the PBB's Board of Directors and Senior Management:

Name	Age	Nationality	Position with the Bank	Date of election
Amb. Alfredo M. Yao	68	Filipino	Chairman Emeritus	Jul 26, 2010
Francis T. Lee	64	Filipino	Chairman	Apr 30, 2010
Peter N. Yap	65	Filipino	Vice Chairman	Sept 01, 2011
Rolando R. Avante	53	Filipino	President and Chief Executive Officer	Nov 2, 2011
Amador T. Vallejos, Jr.	65	Filipino	Director	Apr 27, 2012
Jeffrey S. Yao	44	Filipino	Director	May 27, 1997
Honorio O. Reyes- Lao	68	Filipino	Director	Apr 29, 2011
Paterno H. Dizon	74	Filipino	Independent Director	Apr 27, 2012
Leticia M. Yao	59	Filipino	Director	Apr 29, 2011
Josephine Joy D. Caneba	32	Filipino	Corporate Secretary	Dec 17, 2012
Robert S. Santos	63	Filipino	Asst. Corporate Secretary and Internal Legal Counsel	Aug 22, 2012
Benjamin R. Sta. Catalina, Jr.	64	Filipino	Independent Director	Jul 16, 2012
Joseph Edwin S. Cabalde	42	Filipino	Treasurer	Jul 16, 2012
Alice P. Rodil	55	Filipino	Senior Vice President and Controller/ Investor Relations and Information Officer - OIC	Jul 20, 2001 / Jan 21, 2013

Alfredo M. Yao (Filipino, 68 years old)

Mr. Alfredo M. Yao is the Chairman Emeritus of the Board of PBB. He is also currently the Chairman of Zest-O Corporation, Semexco Marketing Corp., and Asiawide Refreshments Corp. He is currently serving as President of Solmac Marketing Inc., Harman Foods (Phil.) Inc., and Amchem Marketing, Inc. He also sat as a director of Export and Industry Bank. He has had training in Corporate Governance with Export & Industry Bank (a bank placed under receivership by order of the Bangko Sentral ng Pilipinas issued in April 2012). He has had training on CISA – Credit Bureau, and on SME Related Issues and other CTB Related issues with the Senate of the Philippines. He also attended a Risk Management Awareness Seminar given by the Pacific Management Forum and PBB, and he had attended a PCCI Business Forum, given by PCCI.

Francis T. Lee (Filipino, 64 years old)

Mr. Francis T. Lee the Chairman of the Board of PBB . From 1988 to 2000, he held several managerial and executive positions in Metrobank, including Senior Manager, Assistant Vice-President, Vice-President, First Vice-President, and Senior Vice-President. From 2002 to 2003, he was a Director of Export & Industry Bank (a bank placed under receivership by order of the Bangko Sentral ng Pilipinas issued in April 2012). He has had training in Corporate Governance & Risk Management for Bank's

Board of Directors, and Risk Awareness, and has attended seminars given by the Bankers Institute of the Philippines. He is currently also serving as the President of AMY Foundation, Inc.

Peter N. Yap (Filipino, 64 years old)

Mr. Peter N. Yap is the Vice Chairman of the Board . From 1978 to 2009 he had held several managerial and executive positions in Allied Banking Corporation, including Senior Manager, Assistant Vice-President and Area Supervisor, Vice-President and Area Supervisor, Senior Vice President and Area Supervisor, and Senior Vice-President and Deputy Head. He was then also concurrently serving as Director and Treasurer of Bancnet, Inc. from 2003 to 2009. From 2009 to 2010, he served concurrently as a Director of Allied Savings Bank, and of Allied Leasing & Finance Corporation.

Rolando R. Avante (Filipino, 53 years old)

Mr. Rolando R. Avante is the President and CEO of PBB. From 1979 to 1983 he was a Senior Manager at the Multinational Investment and Bancorporation, and from 1983 to 1988 he was a Senior Manager at Philippine Commercial Capital Inc. He was the Vice-President for Local Currency Desk at Citytrust Banking Corp from April 1988 to August 1994, and he was the Senior Vice-President and Treasurer at Urban Bank from September 1994 to January 1995. In February 1995, he became the First Vice-President for Domestic Fund Management at PCI Bank, which position he held until November of 1999. From December 1999 to June 2009, he was the Executive Vice President and Treasurer of Chinatrust (Philippines), and from November 2009 to December 2011 he was the Executive Vice President and Treasurer of Sterling Bank of Asia.

Mr. Amador T. Vallejos, Jr. (Filipino, 65 years old)

Mr. Amador T. Vallejos, Jr. has been a Director of PBB since May 1997. He is currently a Director of the Philippine Association of Food Technology, Philippine Chamber of Food Manufacturers and the Philippine Article Numbering Council. He is also currently serving as the General Manager of Amchem, as the Chairman of King of Travel, and as the President of SM Development Company. He is a member of the Professional Risk Managers International Association.

Mr. Jeffrey S. Yao (Filipino, 44 years old)

Mr. Jeffrey Yao has been a Director of PBB since 1999. He currently holds the position of member of the Board of Director in Asiawide Refreshment Corporation and Zest Air. He also sat as director of Export and Industry Bank (a bank placed under receivership by order of the Bangko Sentral ng Pilipinas issued in April 2012). He is currently serving as Chief Operating Officer of Zest-O Corporation.

Mr. Honorio O. Reyes- Lao (Filipino, 67 years old)

Mr. Honorio O. Reyes-Lao has been a Director of PBB since April 2010. From 1991 to 2004 he held various managerial and executive positions in China Banking Corporation, concurrently serving as a Director of CBC Properties Computer Center, Inc. and CBC Forex Corporation (from 1997 to 2002). He also served as a Director and Treasurer of CBC Insurance Brokers; Senior Management Consultant for East West Banking Corp., and as a consultant for the Antel Group of Companies. From 2008 to 2009, he was the President of Gold Venture Lease & Management Services, Inc. He is also currently an Independent Director of DMCI Holding Corporation.

Mr. Paterno H. Dizon (Filipino, 73 years old)

Mr. Dizon is elected Independent Director of PBB. His work experience include having served as Director in various corporations such as Export & Industry Bank (a bank placed under receivership by order of the Bangko Sentral ng Pilipinas issued in April 2012), Hermosa Ecozone Development

Corporation, EIB Securities. He also served as the President of Science Park of the Philippines, Cebu Light Industrial Park, and of RFM Science Park of the Philippines and Holy Cross College. He is currently a Director of Philippine Export-Import Credit Agency, and is the Chairman of Philippine Exporters Confederation, Inc.

Mr. Benjain R. Sta. Catalina, Jr. (Filipino, 64 years old)

Mr. Benjamin R. Sta. Catalina, Jr. has been an Independent Director of PBB since July 2012, although he had previously served as an Independent Director from 2003 to 2005. From 1994 to 1995 he was concurrently the Vice President/Group Head of the Pan Asian Corporate Team of Citibank N.A., and the Vice President/Chief of Staff of the Global Finance Marketing Group of Citibank, N.A. From January 1996 to July 1996 he served as the Executive Director of the Center for Banking & Financial Management of the Asian Institute of Management.

Leticia M. Yao (Filipino, 59 years old)

Ms. Leticia M. Yao is elected Director of PBB. She graduated from the University of Sto. Tomas in 1983 with a Degree in Medicine. She had training in Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002. She has also taken a risk Awareness Seminar at the Pacific Management Form of PBB in 2009. She was a Director of PBB from 1998 to 2007. She is also currently the Medical Director of United Doctors Medical Center.

Mr. Joseph Edwin S. Cabalde (Filipino, 42 years old)

Mr. Joseph Edwin S. Cabalde is elected Treasurer and holds the position of First Vice-President and Head of the Treasury Services Group. His work experience include: Accounting Assistant and Assistant Secretary Head of China Banking Corporation (1991 to 1993), Treasury Officer of Urban Bank Inc. (1993 to 1995), Manager and Chief Dealer of Bangkok Bank Manila, and of Bank of Tokyo Mitsubishi (1995 to 2004), Treasury Head of Oilink International (2004 to 2007), Assistant Vice-President and Treasurer of EEI Corporation (2007 to 2008).

Ms. Alice P. Rodil (Filipino, 55 years old)

Ms. Alice P. Rodil has been the Senior Vice President and Comptroller of PBB since 2001. A Certified Public Accountant, and a member of the Philippine Institute of Certified Public Accountant. From 1979 to 1988 she was a member of the Forex Club of the Philippines. From 1991 to 2001 she was a member of Bank Administration Institute International, Philippine Chapter, and from 2001 to 2002, she served as one of its Directors. From 1992 to 1998 she was a Senior Manager at UCPB. In 1998 she began her career with PBB as a Consultant of the Controllership Group. In 1999, she became the Vice President of the Accounting Group..

Atty. Roberto Santos (Filipino, 63 years old)

Attorney Roberto S. Santos is the Vice-President / Head of the Legal Services Center and Remedial and Special Assets Management Group. In his 40-year experience in banking and finance, he was a Manager with Traders Royal Bank since 1980 and subsequently held various executive positions with Security Bank from 1982 to 1999 and was also General Manager of Security Finance Company from 1997-2001. He was the Head of the Legal Department of Metrobank Card Corporation from 2002 to 2004 and joined PBB as Assistant Vice-President in 2008.

Atty. Josephine Joy D. Caneba (Filipino, 32 years old)

Attorney Josephine Joy Caneba was elected Corporate Secretary of the PBB on December 2012. She has extensive corporate practice and specializes in the field of securities regulation, public offering and other capital market transactions. She obtained her Bachelor of Laws degree from the University of Sto. Tomas in 2005 and was admitted to the Philippine Bar in 2006. She joined the law firm of Feria Tantoco Robeniol Law Offices in 2006 and has served as Corporate Secretary in various corporations including publicly listed companies such as Oriental Peninsula Resources Group, Inc., Liberty Flour Mills and MIC Holdings Corporation.

Identify Significant Employees

Although PBB has relied on and will continue to rely on, the individual and collective contributions of each of its executive officers, senior operational personnel and non-executive employees, PBB believes that it does not depend on the services of a particular employee and that there is no employee that the resignation or loss of whom would have a material adverse impact on its business.

Family Relationships

Amb. Alfredo M. Yao and Leticia M. Yao are siblings.

Jeffrey S. Yao is the son of Amb. Yao.

Other than the foregoing, there are no family relationships either by consanguinity or affinity up to the fourth civil degree among directors, executive officers and nominees for election as directors.

Involvement in Certain Legal Proceedings

1. On February 21, 2011, Alicia Tumanda, a bank client, filed a criminal complaint for Falsification of Public Documents at the Prosecutor's Office of Caloocan City docketed as IS No. XV-03-INV-11B-00643/00644 entitled Alicia Tumanda vs. Alfredo M. Yao, Francis T. Lee, Jeffrey S. Yao, Amador T. Vallejos, Jr., Paterno Dizon, et al. Ms. Tumanda alleged that her signature was falsified in certain Deeds of Assignment involving various titles covered by TCT Nos. 221708, 221709, 221710, 221711 and 222567. However, the Bank denied all these allegations, asserting that by virtue of the Affidavit of Withdrawal executed by the Complainant, Alicia Tumanda to the effect that the discrepancies in the Deeds of Assignment were caused by the honest mistake of the clerk who entered the subject document in the registry of Notary Public and neither did complainant make mention of any specific act from which it can be reasonably deduced that respondents, indeed, have knowledge of such fact of falsification. The Prosecutor's Office of Caloocan City agreed with the Bank and ordered for the dismissal of the case. On December 12, 2012, the Motion for Reconsideration filed by the complainant was likewise dismissed.

2. The following administrative and criminal cases mentioned below are cases filed against the Bank by a certain Nimfa Simbulan ("Simbulan") and her siblings which the Bank considered as harassment suits as the Bank was caught in the crossfire between the complainant and one of the respondents, Jose C. Lee (a client of the bank, "Lee"). The complainant, Nimfa Simbulan, is demanding payment for alleged damages she sustained by virtue of an alleged mortgage loan with the Bank which, based on the Bank's records, does not exist.

The following cases arose from a controversy between Lee, who was the one who actually obtained a loan from the bank, and Simbulan. The Bank was caught in the crossfire since the release of the loan was made using the facilities of the Bank upon the request of Lee. Simbulan was of the belief that a mortgage loan was obtained from the Bank in her name and that a savings account was opened in her name, both without her knowledge and consent.

The Bank, in all its submissions to the respective judicial and quasi-judicial offices where the following cases are pending, has categorically stated that no such mortgage loan in the name of Simbulan exists in its records. Further, the Bank maintains its position that the opening of the savings account in Simbulan's name was done in accordance with its regular procedure for opening of accounts for each and every client.

a. On January 27, 2012, an administrative case was filed by Nimfa Simbulan thru her AIF, Dyan S. dela Cruz against Rolando R. Avante, Elizabeth S. Cheung, et al. for alleged Violation of Sec. 55.1 (a) Participating in Fraudulent Transaction) of Republic Act No. 8791 (General Banking Law of 2000) with the Office of Special Investigation (OSI) of the Bangko Sentral ng Pilipinas under OSI Adm. Case No. 2012-001 filed by Nimfa Simbulan thru her AIF, Dyan S. dela Cruz. In this case, Simbulan alleged that the Bank and the impleaded officers participated in defrauding her when they approved the alleged loan and mortgage agreement and opened the savings account. As previously stated the Bank denied these allegations and insisted that no mortgage loan in the name of Simbulan exists in records of the Bank This complaint is now submitted for resolution.

b. On February 16, 2012 a criminal complaint was filed by Nimfa Simbulan thru her AIF, Dyan S. dela Cruz against Elizabeth S. Cheung, Rolando R. Avante and Alfredo M. Yao, et al. at the Prosecutor's Office of Quezon City docketed as IS No. XV-03-INV-12B-01508 for alleged Violation of Republic Act No. 8791. The allegations in this case are similar to the allegations in the immediately preceding item, thus bolstering the Bank's position that this is a harassment suit. This case is submitted for Resolution.

c. On May 07, 2012 a criminal complaint is filed by Nimfa Simbulan thru her AIF, Dyan S. dela Cruz against Elizabeth S. Cheung, Rolando R. Avante, Alfredo M. Yao, et al. at the Prosecutor's Office of Taytay, Rizal docketed as IS No. XV-18A-INV-12E-01453 for alleged theft of the property title used to secure the mortgage in Simbulan's name. This criminal complaint was dismissed by the Prosecutor's Office of Taytay, Rizal on the ground that the subject title was not stolen but delivered to Lee by Simbulan's father and sibling when they obtained the loan and that assuming the title was stolen, the evidence showed that it was not the respondents who stole the same from Simbulan. The complainant filed for a Motion for Reconsideration thereon.

d. On May 07, 2012 a criminal complaint was filed by Ivette C. Soliman ("Soliman") against Elizabeth S. Cheung, Rolando R. Avante, Alfredo M. Yao, et al. at the Prosecutor's Office of Taytay, Rizal docketed as IS No. XV-18D-INV-12E-01452 for alleged Violation of Republic Act No. 1405 (Bank Secrecy Law). In this case, Soliman, in view of Lee's disclosures of her act of depositing the loan proceeds in her account in his counter-affidavit in one of the cases above, alleged that Lee violated the Bank Secrecy Law when he disclosed said information without her consent. Soliman also alleged that without the Bank's participation, Lee would not have gotten hold of such information. This criminal complaint was dismissed by the Prosecutor's Office of Taytay, Rizal for lack of probable cause.

3. On March 22, 2002, Mr. Tomas Tan of CST Enterprise, Inc. (CST) filed a derivative suit as a minority stockholder against Philippine Business Bank, et al., for the Declaration of Unenforceability of Promissory Notes and Mortgage, Injunction and Damages with Prayer for Temporary Restraining Order or Writ of Preliminary Injunction. The case arose from a loan obtained by CST, as represented by John Dennis Chua and secured by Real Estate Mortgage over TCT nos. 124275 and 157581. CST defaulted in the payment of the loans constraining PBB to commence the necessary foreclosure proceedings on the mortgaged properties. However, the minority stockholder, Tomas Tan, alleged that the loan was fraudulently obtained and sought for its nullification. The case is still pending in RTC 66 – Makati City. In the same case, PBB filed a cross claim against Felipe Chua and successfully obtained a Summary Judgment (and was executed), however, defendant/cross-defendant Felipe Chua appealed the Order of execution pending appeal, wherein the Supreme Court eventually ordered to remand the case back to the

RTC 66-Makati City for further trial. Even if an adverse decision will be made against the Bank on this civil case, the Bank believes it will not have an adverse material effect on its operations.

To date, no criminal case is pending against any of the directors and executive officers of PBB, however, PBB has information that CST, thru Mr. Tomas Tan, intends to file criminal cases against PBB, its directors and officers, the supposed crimes are allegedly connected with the above-mentioned case.

Item 10. Executive Compensation

The following table sets forth the aggregate compensation received by its key management officers:

In Php millions		Aggregate Compensation Paid as a Group	
NAME	POSITION	2011	2012
CEO and the six (6) most highly compensated officers of the Bank namely:		21.47	21.67
Peter N. Yap Rolando R. Avante Alice P. Rodil Raymond T. Co Keith C. Chan Felipe V. Firignal	Vice-Chairman President & CEO Senior Vice President Senior Vice President First Vice President First Vice President		

Compensation of Directors

Each director of the Bank receives a per diem allowance of Php20,000.00 determined by the Board of Directors for attendance in a Board meeting and a Php5,000.00 allowance for attendance in a committee meeting. The Directors are also entitled to a monthly gasoline allowance of Php5,000.00. Except as disclosed above, none of these Directors receive any additional compensation for any special assignments.

Except for each of the individual Directors' participation in the Board, no Director of the Bank enjoys other arrangements such as consulting contracts or similar arrangements.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

PBB has executed pro-forma employment contracts with its Staff and Officers. These contracts basically specify the scope of services expected from these individuals and the compensation that they shall receive.

There are no arrangements for compensation to be received by these named executive officers from the Bank in the event of a change in control of the Bank.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The following persons own at least five per cent (5%) of the Bank's outstanding common shares:

Title of Class	Name, Address of Record Owners and relationship with the issuer	Name of Beneficial Owner and relationship with record owner	Citizenship	No. of shares held	Per cent of class
Common	Alfredo M. Yao 84 Dapitan St. corner Banawe St. Sta. Mesa Heights, Quezon City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	127,913,766	52.86%
Common	Zest-O Corporation 574 EDSA Caloocan City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	86,428,226	35.71%
Common	Francis T. Lee 15 Masigla St. East Avenue, Quezon City Chairman of the Board	The record owner is the beneficial owner of the shares indicated	Filipino	24,200,000	10%
Total Common Shares				238,541,992	98.57%

On November 16, 2012, the SEC approved PBB's application for the amendment of its articles of incorporation to increase its authorized capital stock from Php3.0 billion to Php10.0 billion and for a decrease in par value from Php100 to P10.00

Security Ownership of Management

The following directors and executive officers of the Company directly own approximately [63.58%] per cent of the Company's issued and outstanding common stock as follows:

Name of Director	Nationality	Present Position	No. of Shares	%
Alfredo M. Yao	Filipino	Chairman Emeritus (1)	127,913,766	52.86%
Francis T. Lee	Filipino	Chairman	24,200,000	10%
Peter N. Yap	Filipino	Vice Chairman	48	negligible
Jeffrey S. Yao	Filipino	Director	864,286	0.36%
Leticia M. Yao	Filipino	Director	864,286	negligible
Rolando R. Avante	Filipino	President & CEO	58	negligible
Amador T. Vallejos, Jr.	Filipino	Director	576	negligible

Benjamin R. Sta. Catalina	Filipino	Director	57	negligible
Paterno H. Dizon	Filipino	Director	57	negligible
Honorio O. Reyes-Lao	Filipino	Director	58	negligible
Josephine Joy D. Caneba	Filipino	Corporate Secretary	none	
Joseph Edwin S. Cabalde	Filipino	Treasurer	none	
Alice P. Rodil	Filipino	Senior Vice President - Controller	none	
Atty. Roberto Santos	Filipino	Internal Legal Counsel and Asst. Corporate Secretary	none	

(1) The Chairman Emeritus does not have any power to vote as a director at the Board of Directors Meeting. Not counting the shares owned by Alfredo M. Yao, the above directors and officers collectively own 10.72% of the issued and outstanding capital stock of the Bank

Voting Trust Holders of 5% Or More

The Bank is unaware of any person holding more than five per cent (5%) of shares under a voting trust or similar agreement.

Changes in Control

There have been no arrangements that have resulted in a change of control of the Bank during the period covered by this report.

Item 12. Certain Relationships and Related Transactions

As of the September 30, 2012, the following are the significant transactions of the Bank in the normal course of business with related parties, as reflected in the interim audited financial statements of the Bank:

a) The Bank has loan transactions with its officers and employees.

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total capital funds or 15 per cent of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70 per cent must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. As of December 31, 2012 and 2011, total loans extended to DOSRI amounted to Php800.841 million and Php259.732ion, respectively. As of December 31, 2012 and 2011, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

Relative to the DOSRI loans, the following additional information is also presented:

	December 31, 2012	December 31, 2011
Total outstanding DOSRI loans	Php 800.841 million	Php 259.73 million
% to total loan portfolio	4.1%	1.2%

The Bank has no past due DOSRI loans as of December 31, 2012 and 2011.

As of December 31, 2012, the Bank had approved line of credit to certain related parties totaling Php218.0 million of which Php207.7 million was use to guarantee the obligation of the respective related parties to other creditors up to the extent of the unused line of credit.

The Bank has no unsecured loan that is subject to 30 per cent aggregate DOSRI ceiling. Unsecured DOSRI loans to the officers of the Bank, which are subject to the 5 per cent ceiling for loans under fringe benefits program under MORB, amounted to Php18.1 million and Php24.2 million, as of December 31, 2012 and 2011, respectively.

b) The Bank has approved sales of investment properties to related parties.

On May 21, 2012, the Bank sold ROPA with a carrying value of Php0.3 million for Php0.3 million, and on June 2, 2011 with a carrying value of Php0.4 million for Php0.3million. There are no outstanding receivables from these DOSRI sale transactions as of September 30, 2012 and 2011.

c) The Bank has deposits from related parties.

As of December 31, 2012, the total balance of DOSRI deposits, inclusive of the corresponding related accrued interest, included in the financial statements amounted to Php5.661 billion.

d) The Bank leases properties from related parties.

The Bank leases the following properties from affiliated parties:

Property	Owner
Banawe, Quezon City branch	Solmac Marketing Inc.
EDSA Caloocan branch	Zest-O Corporation
Quintin Paredes, Binondo branch	Downtown Realty Corporation
PBB Support Center, Caloocan City	SMI Development Corporation
Yakal Makati branch	AMY Building Leasing

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Philippine Business Bank, Inc. commits to the highest standards of good corporate governance in realizing its vision and mission. The Bank believes 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. The Bank accomplishes this by adopting measures designed to align the shareholders' and senior management's objectives with that of the employees.

The Board of Directors conducts its functions as a full Board and through its six (6) committees, namely: Executive, Trust, Corporate Governance and Nomination, Audit, Risk Management and Manpower, Compensation and Remuneration. Board-approved Corporate Governance policies are contained in the Manual of Corporate Governance which is based on the Corporate Code of the Philippines, Securities Regulations Code, SEC Revised Code of Corporate Governance and relevant provisions of the Bangko Sentral ng Pilipinas Manual of Regulations for Banks. Every member of the organization of Phlippine Business Bank, Inc. is informed of these policies.

The Bank's Code of Ethics ensures that all employees adhere to the highest standards of quality, honesty, transparency and accountability. To further emphasize its commitment to integrity, the Philippine Business Bank, Inc., under its Whistle Blowing Policy, encourages employees to report, in good faith, to Senior Management any misconduct within their respective business units. The policy protects in confidence the identity of the employee who disclosed the suspected offence within the organization.

Philippine Business Bank, Inc. values the contribution of its employees in fostering a culture of good corporate governance. The Human Resource Group and the Personnel Committee ensure that interests and concerns of personnel are heard and addressed.

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

The Corporate Governance and Nomination Committee leads the Bank in defining corporate governance policies and attaining best practices. As one of its strategic governance roles, the Corporate Governance and Nomination Committee reviews and evaluates the qualification of individuals nominated to the Board as well as those nominated to other positions requiring appointment by the Board. The Committee is responsible for the periodic administration of performance evaluation of the Board and its committees. It conducts an annual evaluation of its performance in accordance with the criteria provided in the 2009 SEC Code of Corporate Governance and the Bangko Sentral ng Pilipinas Manual of Regulations for Banks. The Committee is assisted by the Compliance Office led by the Chief Compliance Officer in the implementation of its mandates.

The Committee, consisting of two (2) independent directors (one of whom acts as chairperson) and one (1) regular director meets every two months.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

Annex A …........Audited Financial Statements

State whether any reports on SEC Form 17-C, as amended were filed during the last six month period covered by this report, listing the items reported, any financial statements filed and the dates of such.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Caloocan City on APR 22 2013 20__.

By:

ROLANDO R. AVANTE
President and Chief executive Officer

ALICE P. RODIL
SVP / Comptroller

PETER N. YAP
Vice-Chairman / Chief Operating Officer

ATTY. ROBERTO S. SANTOS
Assistant Corporate Secretary

JOSEPH EDWIN S. CABALDE
FVP / Treasurer

SUBSCRIBED AND SWORN to before me this _____ day of APR 22 2013 20__ affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	GOV'T ID	DATE OF ISSUE	PLACE OF ISSUE
ROLANDO R. AVANTE	TIN	106-968-623	
PETER N. YAP	TIN	101-915-282	
ALICE P. RODIL	TIN	107-200-588	
ATTY. ROBERTO S. SANTOS	TIN	123-467-623	
JOSEPH EDWIN S. CABALDE	TIN	117-482-086	

Notary Public

Atty. NIÑO CHRISTOPHER R. PURA
Valid until December 31, 2013
Roll of Attorney's No. 53938
PTR No. 3680750, 01/10/13, Makati City
IBP No. 923434, 01/09/13, Makati City
MCLE Compliance No. III-0011936; 4/13/2010

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SECForm 17-A - as Amended
February 2001

PHILIPPINE BUSINESS BANK
a savings bank

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of **Philippine Business Bank, Inc. A Savings Bank** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended **December 31, 2012**. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended **December 31, 2012** and the accompanying Annual Income Tax Return are in accordance with the books and records of **Philippine Business Bank, Inc. A Savings Bank** and are complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No.8-2007 and other relevant issuances;

(c) **Philippine Business Bank, Inc. A Savings Bank** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

SUBSCRIBED AND SWORN to before me on APR 29 2013 20__
affiant/s exhibiting to me his/her Government-Issued ID/s bearing his/her Photograph/s and Signature/s.

Signature : ______________________
FRANCIS T. LEE
Chairman of the Board

Signature : ______________________
ROLANDO R. AVANTE
President and Chief Executive Officer

Signature : ______________________
ALICE P. RODIL
Senior Vice President and Controller

Atty. NIÑO CHRISTOPHER R. PURA
Valid until December 31, 2013
Roll of Attorney's No. 53988
PTR No. 3680750; 01/10/13, Makati City
IBP No. 923434 01/09/13, Makati City
MCLE Compliance No. III-0011936; 4/13/2010

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Website: www.pbb.com.ph Email: info@pbb.com.ph

PHILIPPINE BUSINESSBANK
a savings bank

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philippine Business Bank, Inc. A Savings Bank** (the Bank), is responsible for the preparation and fair presentation of the financial statements for the three years ended December 31, 2012, 2011 and 2010, in accordance with financial reporting standards in the Philippines (FRSP) for banks, including the following additional supplemental information filed separately from the basic financial statements:

a. Supplementary Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68;
b. Reconciliation of Retained Earnings Available for Dividend Declaration; and,
c. Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2012.

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Bank in accordance with Philippine Standards on Auditing and, and in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

APR 2 9 2013

SUBSCRIBED AND SWORN to before me on ______ 20__ ... issued ... and Signature/s.

FRANCIS T. LEE
Chairman of the Board

ROLANDO R. AVANTE
President and Chief Executive Officer

ALICE P. RODIL
Senior Vice President and Controller

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
RECEIVED
APR 1 5 2013
C.O. ... AMOCATCAT-TAS
LT DIVISION - MAKATI

Signed this ____ day of APR 2 9 2013

Atty. NIÑO CHRISTOPHER R. PURA
Valid until December 31, 2013
Roll of Attorney's No. 53928
PTR No. 3680750; 01 ... Makati City
IBP No. 923434 ... Makati City
MCLE Compliance No. III-0011936; 4/13/2010

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BOOK NO. 46
SERIES OF 2013

Punongbayan & Araullo
An instinct for growth™

Report of Independent Auditors

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The Board of Directors and Stockholders
Philippine Business Bank, Inc. A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Business Bank, Inc. A Savings Bank, which comprise the statements of financial position as at December 31, 2012, 2011 and 2010, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting standards in the Philippines for banks as described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Business Bank, Inc. A Savings Bank as at December 31, 2012, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with financial reporting standards in the Philippines for banks as described in Note 2 to the financial statements.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2012 required by the Bureau of Internal Revenue as disclosed in Note 28 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with financial reporting standards in the Philippines for banks. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Benjamin P. Valdez
Partner

CPA Reg. No. 0028485
TIN 136-619-880
PTR No. 3671439, January 2, 2013, Makati City
SEC Group A Accreditation
Partner - No. 0009-AR-3 (until Dec. 9, 2014)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-11-2011 (until Sept. 22, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 15, 2013

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
RESOURCES				
CASH AND OTHER CASH ITEMS	7	**P 435,898,545**	P 297,076,011	P 243,967,572
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**3,073,180,153**	1,119,319,376	383,659,746
DUE FROM OTHER BANKS	8	**1,000,089,458**	630,690,655	385,008,004
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	9	-	207,742,896	-
AVAILABLE-FOR-SALE SECURITIES	10	**5,784,536,589**	5,710,865,520	6,623,022,640
LOANS AND OTHER RECEIVABLES - Net	11	**20,869,152,721**	16,704,655,545	13,369,671,794
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12	**398,495,157**	340,824,112	320,370,895
INVESTMENT PROPERTIES - Net	13	**549,237,420**	397,393,144	282,528,711
OTHER RESOURCES - Net	14	**986,674,737**	476,251,433	506,994,058
TOTAL RESOURCES		**P 33,097,264,780**	P 25,884,818,692	P 22,115,223,420
LIABILITIES AND EQUITY				
DEPOSIT LIABILITIES	15			
Demand		**P 366,102,479**	P 318,440,285	P 403,363,157
Savings		**8,569,873,133**	8,733,282,429	8,870,638,774
Time		**17,512,911,126**	12,143,265,403	8,313,404,494
Total Deposit Liabilities		**26,448,886,738**	21,194,988,117	17,587,406,425
BILLS PAYABLE	16	**765,489,517**	121,482,599	1,213,002,192
ACCRUED EXPENSES AND OTHER LIABILITIES	17	**1,480,537,015**	895,612,333	850,971,692
Total Liabilities		**28,694,913,270**	22,212,083,049	19,651,380,309
EQUITY	18	**4,402,351,510**	3,672,735,643	2,463,843,111
TOTAL LIABILITIES AND EQUITY		**P 33,097,264,780**	P 25,884,818,692	P 22,115,223,420

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011 (As Restated - See Note 18)	2010 (As Restated - See Note 18)
INTEREST INCOME				
Loans and other receivables	11	**P 1,284,470,654**	P 1,031,440,553	P 1,082,179,944
Investment and trading securities	9, 10	**346,975,551**	547,812,982	231,480,010
Securities purchased under reverse repurchase agreements	11	**52,927,125**	59,436,144	30,144,778
Due from Bangko Sentral ng Pilipinas and other banks	7, 8	**22,489,319**	19,281,830	15,037,573
		1,706,862,649	1,657,971,509	1,358,842,305
INTEREST EXPENSE				
Deposit liabilities	15	**608,049,195**	536,224,396	400,269,297
Bills payable	16	**25,917,742**	36,235,312	48,625,871
		633,966,937	572,459,708	448,895,168
NET INTEREST INCOME		**1,072,895,712**	1,085,511,801	909,947,137
IMPAIRMENT LOSSES	11, 13	**72,417,710**	50,000,000	199,320,155
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**1,000,478,002**	1,035,511,801	710,626,982
OTHER INCOME				
Trading gains - net	9, 10, 11	**713,001,287**	594,880,835	608,212,620
Service charges, fees and commissions		**67,727,501**	65,543,065	113,694,316
Miscellaneous	19	**104,216,068**	102,527,458	58,810,180
		884,944,856	762,951,358	780,717,116
OTHER EXPENSES				
Salaries and other employee benefits	20	**322,525,023**	255,380,658	211,786,006
Taxes and licenses	28	**223,137,873**	178,324,986	170,294,814
Management and other professional fees		**94,039,960**	91,047,068	87,208,614
Depreciation and amortization	12, 13, 14	**77,573,667**	63,197,800	49,076,217
Insurance		**61,805,245**	47,580,555	40,960,409
Representation and entertainment		**23,656,561**	23,829,965	18,478,070
Miscellaneous	19	**371,967,383**	292,566,630	227,518,674
		1,174,705,712	951,927,662	805,322,804
PROFIT BEFORE TAX		**710,717,146**	846,535,497	686,021,294
TAX EXPENSE	22	**56,431,793**	99,561,375	2,744,217
NET PROFIT		**P 654,285,353**	P 746,974,122	P 683,277,077
Earnings Per Share	27			
Basic		**P 2.29**	P 3.09	P 2.82
Diluted		**P 2.29**	P 3.09	P 2.82

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Note	2012	2011	2010
NET PROFIT		**P 654,285,353**	P 746,974,122	P 683,277,077
OTHER COMPREHENSIVE INCOME				
Fair value gain on available-for-sale securities during the year - net	10	**185,130,710**	467,638,969	45,184,502
Fair value loss (gain) recycled to profit or loss	10	**(384,450,196)**	(5,720,559)	20,885,122
		(199,319,486)	461,918,410	66,069,624
TOTAL COMPREHENSIVE INCOME		**P 454,965,867**	P 1,208,892,532	P 749,346,701

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Capital Stock (See Note 18)		Surplus (See Note 18)		Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Total
	Preferred Stock	Common Stock	Appropriated	Unappropriated	(See Note 10)	Equity
BALANCE AS OF JANUARY 1, 2012	P 245,000,000	P 420,000,000	P 277,564	P 2,485,562,793	P 521,895,286	P 3,672,735,643
Appropriation for trust reserves	-	-	595,934	(595,934)	-	-
Collection of subscription receivable	375,000,000	-	-	-	-	375,000,000
Stock dividends	-	2,000,000,000	-	(2,000,000,000)	-	-
Cash dividends	-	-	-	(100,350,000)	-	(100,350,000)
Total comprehensive income (loss)	-	-	-	654,285,353	(199,319,486)	454,965,867
BALANCE AS OF DECEMBER 31, 2012	**P 620,000,000**	**P 2,420,000,000**	**P 873,498**	**P 1,038,902,212**	**P 322,575,800**	**P 4,402,351,510**
BALANCE AS OF JANUARY 1, 2011	P 245,000,000	P 420,000,000	P -	P 1,738,866,235	P 59,976,876	P 2,463,843,111
Appropriation for trust reserves	-	-	277,564	(277,564)	-	-
Total comprehensive income	-	-	-	746,974,122	461,918,410	1,208,892,532
BALANCE AS OF DECEMBER 31, 2011	P 245,000,000	P 420,000,000	P 277,564	P 2,485,562,793	P 521,895,286	P 3,672,735,643
BALANCE AS OF JANUARY 1, 2010	P 245,000,000	P 420,000,000	P 120,000,000	P 935,589,158	(P 6,092,748)	P 1,714,496,410
Appropriation for trust reserves	-	-	(120,000,000)	120,000,000	-	-
Total comprehensive income	-	-	-	683,277,077	66,069,624	749,346,701
BALANCE AS OF DECEMBER 31, 2010	P 245,000,000	P 420,000,000	P -	P 1,738,866,235	P 59,976,876	P 2,463,843,111

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 710,717,146	P 846,535,497	P 686,021,294
Adjustments for:				
Depreciation and amortization	12, 13, 14	77,573,667	63,197,800	49,076,217
Impairment losses	11, 13	72,417,710	50,000,000	199,320,155
Loss (gain) on sale of properties - net	19	(12,226,663)	(9,199,762)	11,838,992
Gain on foreclosure - net	19	(1,018,455)	(32,028,960)	(9,096,006)
Operating profit before working capital changes		847,463,405	918,504,575	937,160,652
Decrease (increase) in financial assets at fair value through profit or loss		207,742,896	(207,742,896)	-
Increase in loans and other receivables		(7,269,632,998)	(1,933,185,215)	(1,180,853,654)
Decrease (increase) in other resources		(477,888,382)	43,823,968	32,418,175
Increase in deposit liabilities		5,253,898,621	3,607,581,692	4,904,643,951
Increase (decrease) in accrued expenses and other liabilities		594,039,215	64,639,680	(288,486,569)
Cash generated from (used in) operations		(844,377,243)	2,493,621,804	4,404,882,555
Cash paid for income taxes		(98,405,502)	(132,455,753)	(96,281,826)
Net Cash From (Used in) Operating Activities		(942,782,745)	2,361,166,051	4,308,600,729
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of available-for-sale (AFS) securities	10	(13,528,772,418)	(10,977,153,805)	(21,905,757,726)
Proceeds from sale of AFS securities	10	13,255,781,863	12,351,229,335	18,573,608,137
Proceeds from sale of investment and other properties	13, 14	128,569,761	47,147,364	40,651,005
Net acquisitions of bank premises, furniture, fixtures and equipment	12	(123,371,264)	(71,418,634)	(39,122,345)
Net payment for merger consideration		-	-	(15,005,533)
Net Cash From (Used In) Investing Activities		(267,792,058)	1,349,804,260	(3,345,626,462)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings (payments) of bills payable		644,006,917	(1,091,519,591)	(1,711,644)
Collection of subsription receivable	18	375,000,000	-	-
Payment of cash dividends	18	(100,350,000)	-	-
Net Cash From (Used in) Financing Activities		918,656,917	(1,091,519,591)	(1,711,644)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(291,917,886)	2,619,450,720	961,262,623
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR				
Cash and other cash items	6	297,076,011	243,967,572	192,825,023
Due from Bangko Sentral ng Pilipinas	6	1,119,319,376	383,659,746	207,555,347
Due from other banks	8	630,690,655	385,008,004	202,992,329
Securities purchased under reverse repurchase agreements	11	2,754,000,000	1,169,000,000	617,000,000
		4,801,086,042	2,181,635,322	1,220,372,699
CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
Cash and other cash items	7	435,898,545	297,076,011	243,967,572
Due from Bangko Sentral ng Pilipinas	7	3,073,180,153	1,119,319,376	383,659,746
Due from other banks	8	1,000,089,458	630,690,655	385,008,004
Securities purchased under reverse repurchase agreements	11	-	2,754,000,000	1,169,000,000
		P 4,509,168,156	P 4,801,086,042	P 2,181,635,322

Supplemental Information on Noncash Operating, Investing and Financing Activities

(1) In 2012, the Bank's stockholders approved the declaration of stock dividends amounting to P2.0 billion. This was distributed to stockholders in the same year (see Note 18).

(2) Transfers from loans and other receivables to investment properties as a result of foreclosures amounted to P279.0 million, P127.9 million and P16.1 million in 2012, 2011 and 2010, respectively (see Note 13), while transfers from loans and other receivables to other resources in 2012, 2011 and 2010 are disclosed in Note 14. Amounts mentioned were exclusive of gains on foreclosure amounting to P1.0 million, P32.0 million and P9.1 million in 2012, 2011 and 2010, respectively (see Note 19).

(3) The fair values of the resources and liabilities of Kabalikat Rural Bank, Inc. that were absorbed by the Bank on March 3, 2010 were P25.3 million and P59.1 million, respectively (see Note 14).

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.01 Incorporation and Operations

Philippine Business Bank, Inc. A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to adoption and use of safe and sound banking practices as promulgated by the BSP.

As of December 31, 2012 and 2011, the Bank operates within the Philippines with 79 and 65 branches, respectively, located nationwide. For the years ended December 31, 2012 and 2011, 14 and 10 branches, respectively, were opened.

The Bank's registered address, which is also its principal place of business, is at 350 Rizal Avenue Extension corner 8th Avenue, Grace Park, Caloocan City.

As indicated in Note 23, the Bank's unissued common shares were subsequently approved for initial public offering and were listed at the main board of the Philippine Stock Exchange (PSE) on February 19, 2013.

1.02 Approval of the Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2012 (including the comparatives for the years ended December 31, 2011 and 2010) were authorized for issue by the Board of Directors (BOD) on April 15, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.01 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Financial Reporting Standards in the Philippines for Banks

The financial statements of the Bank have been prepared in accordance with the financial reporting standards in the Philippines (FRSP) for banks. FRSP for banks are similar to Philippine Financial Reporting Standards (PFRS), except for the reclassification of certain financial assets previously classified under available-for-sale (AFS) securities due to the tainting of held-to-maturity (HTM) portfolio to HTM category, which are not allowed under PFRS, but allowed under FRSP as permitted by the BSP for prudential regulation, and by the Securities and Exchange Commission (SEC) for financial reporting purposes.

Under PFRS, the Bank is not allowed to classify financial assets under HTM investments for at least two years upon tainting of its investments in 2006. However, in 2008, the Bank reclassified financial assets previously classified as AFS securities due to tainting of HTM investments portfolio back to HTM category for prudential reporting purposes (see Note 10) as allowed under FRSP. The unamortized fair value gains related to debt securities previously reclassified from AFS securities to HTM investments amounted to P0.2 million, P0.5 million and P2.7 million for 2012, 2011 and 2010, respectively.

PFRS are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies in the succeeding pages.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents the "Statement of Comprehensive Income" in two statements: a "Statement of Income" and a "Statement of Comprehensive Income".

Two comparative periods are presented for the statement of financial position when the Bank applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

In 2012, the Bank presented two comparative periods for the statements of financial position due to reclassification of the interest income previously presented as Interest Income from Investment and Trading Securities to Interest Income from Loans and Other Receivables. The reclassification did not result in any adjustment to the beginning balance of surplus in all the years presented (see Note 18.03).

Also, in 2012, the Company early adopted PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*, which is mandatorily effective for annual periods beginning January 1, 2013. Accordingly, as allowed under this amendment, the comparative note disclosures to the 2010 statement of financial position were no longer presented [see Note 2.02 (c)].

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank's foreign currency deposit unit (FCDU) which is reported in its functional currency, the United States (US) dollars, are translated using the closing exchange rate (for the statement of financial position accounts) and average exchange rate during the year (for profit and loss accounts).

2.02 Adoption of New and Amended PFRS

(a) *Effective in 2012 that are Relevant to the Bank*

In 2012, the Bank adopted the following amendments to PFRS that are relevant to the Bank and effective for financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2012:

PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Transfers of Financial Assets
PAS 12 (Amendment)	:	Income Taxes – Deferred Tax: Recovery of Underlying Assets

Discussed below are the relevant information about these amended standards.

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*. The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Bank did not transfer any financial asset involving this type of arrangement; hence, the amendment did not result in any significant change in the Bank's disclosures in its financial statements.

(ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset that arises from investment property measured at fair value under PAS 40, *Investment Property* should reflect the tax consequence of recovering the carrying amount of the asset entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretation Committee 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12 requiring that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment* should always be measured on a sale basis of the asset. The amendment has no significant impact on the Bank's financial statements as the Bank's investment properties and land classified as bank premises, furniture, fixture, and equipment are measured at cost.

(b) *Effective in 2012 that is not Relevant to the Bank*

PFRS 1, *First-time Adoption of PFRS,* was amended to provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS financial statements or to present PFRS financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 but is not relevant to the Bank's financial statements.

(c) *Early Adoption of PAS 1(Amendment), Presentation of Financial Statements*

In the preparation of the 2012 financial statements, the Bank adopted PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*, which is mandatorily effective from January 1, 2013. The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for the opening statement of financial position

  If an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third statement of financial position.

  Other than disclosure of certain specified information in Note 18.03, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

  If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

In 2012, the Bank presented only two comparative periods in the notes to financial position accounts as a result of the early adoption of this amendment. The Bank presented the Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity for the three most recent completed fiscal years, in accordance with the requirements of the Securities Regulation Code Rule 68, as amended.

(d) Effective Subsequent to 2012 but not Adopted Early

There are new PFRS, amendments, annual improvements and interpretation to existing standards that are effective for periods subsequent to 2012. Management has initially determined the following pronouncements, which the Bank will apply in accordance with their transitional provisions, to be relevant to its financial statements.

(i) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Bank's management expects that this will not affect the presentation of items in other comprehensive income since the Bank's other comprehensive income only includes unrealized fair value gains or losses on AFS securities which can be reclassified to profit or loss when specified conditions are met.

(ii) PAS 19 (Revision), *Employee Benefits* (effective from January 1, 2013). The revision made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;

- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed through participation in those plans.

Currently, the Bank is using the corridor approach and its unrecognized actuarial loss as of December 31, 2012 amounted to P22.4 million (see Note 20.02) which will be retrospectively recognized as loss in other comprehensive income in 2013.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the Bank's financial position. The Bank is yet to assess the impact of this new standard.

(iv) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to assess the impact of the new standard on the Bank's financial statements

(v) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable in the normal course of business; in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Bank does not expect this amendment to have a significant impact on its financial statements.

(vi) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. This chapter covers the classification and measurement of financial assets and financial liabilities and it deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to International Financial Reporting Standard (IFRS) 9's financial asset classification model to address certain application issues.

The Bank does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Bank and it plans to conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(vii) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, only PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments,* is relevant to the Company but management does not expect a material impact on the Company's financial statements:

The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

2.03 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.16).

Negative goodwill which is the excess of the Bank's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to income.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.04 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 6.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of the Bank used for segment reporting under PFRS 8, *Operating Segments*, is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

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

2.05 Financial Instruments

2.05.01 Financial Assets

Financial assets, which are recognized when the Bank becomes a party to the contractual terms of the financial instrument, include cash and other financial instruments. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity (HTM) investments and AFS securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recognized at fair value and transaction costs related to it are recognized in profit or loss.

The foregoing categories of financial instruments of the Bank are more fully described below.

(a) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the Bank to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

(b) AFS Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS securities include government securities and corporate bonds.

All financial assets within this category are measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income. When the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from revaluation reserve in equity to profit or loss and presented as a reclassification adjustment within other comprehensive income.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) HTM Investments

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

If the Bank sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified to AFS securities under PFRS, and the Bank will be prohibited from holding investments under the HTM category for the next two financial reporting years after the year the tainting occurred. Under FRSP, however, the Bank was allowed to reclassify from AFS to HTM category in 2008 despite being tainted until 2008. The tainting provision under PFRS will not apply if the sales or reclassifications of HTM investments are (i) so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; (ii) occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (iii) are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

Subsequent to initial recognition, the HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated future cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. Any changes to the carrying amount of the investment, including impairment loss, are recognized in profit or loss.

(d) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, securities purchased under reverse repurchase agreements (SPURRA), sales contract receivables and all receivables from customers and other banks.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, and Security deposits, Petty cash fund and Foreign currency notes and coins on hand (presented as part of Other Resources) in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks and SPURRA.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in their value is recognized in profit or loss, except for increases in fair values of reclassified financial assets under PAS 39 and PFRS 7. Increases in estimates of future cash receipts from such financial assets shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of the change in estimate.

Impairment loss is provided when there is objective evidence that the Bank will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows. Impairment is established through an allowance account which is charged to expense. Loans and receivables are written off against the allowance for impairment when management believes that the collectibility of the principal is unlikely, subject to BSP regulations.

For investments that are actively traded in organized financial markets, fair value is determined by reference to exchange-quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

Derecognition of financial assets occurs when the contractual rights to receive cash flows from the financial instruments expire and substantially all of the risks and rewards of ownership have been transferred.

2.05.02 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

2.05.03 Impairment of Financial Assets

The Bank assesses at each reporting 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 impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* it is probable that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

(a) Assets Carried at Amortized Cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. 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 of impairment.

If there is objective evidence that an impairment loss on loans and other receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss. If loans and other receivables or HTM investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. 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 foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur.

(b) *Assets Carried at Fair Value*

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss.

Impairment losses recognized in the statement of income on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of income.

(c) Assets Carried at Cost

The Bank assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

2.05.04 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable and accrued expenses and other liabilities (excluding tax payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of income.

Deposit liabilities and bills payable are recognized initially at fair value, which is the issue proceeds (fair value of consideration received) net of direct issue costs.

Borrowings are subsequently stated at amortized cost using effective interest method for maturities beyond one year, less settlement payments; any difference between proceeds net of transaction costs and the redemption value is recognized in the statement of income over the period of the borrowings.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank subject to the approval of the BSP.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.06 Other Resources

Other resources pertain to other assets controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

2.07 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Furniture, fixtures and equipment	5-7 years
Transportation equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements of 5 to 20 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

The residual values and estimated useful lives of Bank premises, furniture, fixtures and equipment (except land) are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.08 Investment Properties

Investment properties are stated under the cost model. The cost of an investment property comprises its purchase price and directly attributable cost incurred. These also include land and building acquired by the Bank from defaulting borrowers. For these assets, cost is recognized initially at fair value of the investment properties unless:
(i) the exchange transaction lacks commercial substance; or (ii) neither the fair value of the asset received nor the asset given up is reliably measurable. The difference between the fair value of the asset received and the carrying amount of the loan settled through foreclosure of investment properties is recognized as gain or loss on foreclosure under Miscellaneous Income or Expense in the statement of income. Investment properties except land are depreciated over a period of five to ten years.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized as gain or loss on sale of properties - net under Miscellaneous Income or Expenses in the year of retirement or disposal.

2.09 Intangible Assets

Intangible assets include goodwill, acquired branch licenses and computer software included as part of other resources which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition.

Goodwill and branch licenses are classified as intangible assets with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.16). For purposes of impairment testing, goodwill and branch licenses are allocated to cash-generating units (see Note 2.16) and is subsequently carried at cost less any accumulated impairment losses.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Equity

Preferred and common shares represent the nominal value of the shares that have been issued.

Appropriated surplus pertains to appropriations made by the Bank for a portion of the Bank's income from trust operations set-up in compliance with BSP regulations.

Unappropriated surplus includes all current and prior period results of operations as disclosed in the statement of income, less appropriated surplus and dividends declared.

Unrealized fair value gains (losses) on AFS securities pertain to cumulative mark-to-market valuation of AFS securities, net of amortization of fair value gains or losses on reclassified financial assets.

2.12 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and (d) funded retirement plan administered by a trustee bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.13 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the expenses and costs incurred and to be incurred can be measured reliably. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. The following specific recognition criteria of income and expenses must also be met before revenue and expense are recognized:

2.13.01 Interest Income and Expense

Interest income and expense are recognized in the statement of income for all financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

2.13.02 Trading Gains

Trading gains are recognized when the ownership of the security is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security. Trading gains also result from the mark-to-market valuation of the securities at the valuation date.

Costs and expenses are recognized in the statement of income upon utilization of the goods or services or at the date they are incurred.

2.13.03 Service Charges, Fees and Commissions

Service charges, fees and commissions are generally recognized on an accrual basis when the service has been provided. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

2.14 Leases

The Bank accounts for its leases as follows:

(a) Bank as Lessee

Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from a lessor) are recognized as expense in the statement of income on a straight-line basis over the lease term. Associated costs, such as insurance and repairs and maintenance, are expensed as incurred.

(b) Bank as Lessor

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes 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.

2.15 Foreign Currency Transactions and Translation

The accounting records of the Bank's regular banking unit are maintained in Philippine pesos while the FCDU are maintained in US dollars, its functional currency. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

2.16 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses, other properties held for sale (classified as Miscellaneous under Other Resources) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.17 Employee Benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution plan.

(a) Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory and administered by a trustee bank.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates based on zero coupon government bonds as published by Philippine Dealing and Exchange Corporation that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately.

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

(b) *Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g. Social Security System and Philhealth). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: *(i)* terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or *(ii)* providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end reporting period are discounted to present value.

(d) *Bonus Plans*

The Bank recognizes a liability and an expense for employee bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.18 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current income tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the statement of income.

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly to equity are recognized in other comprehensive income or credited directly in equity.

2.19 Earnings Per Share (EPS)

Basic earnings per share are determined by dividing net profit by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted earnings per common share are also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares as approved by the SEC. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares.

As of December 31, 2012 and 2011, the Bank has no convertible preferred shares (see Note 18.01).

2.20 Trust Operations

The Bank acts as trustee and in other fiduciary capacity that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and their income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

2.21 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Bank's financial statements prepared in accordance with FRSP for banks require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. 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. Actual results may ultimately differ from these estimates.

3.01 Critical Management Judgments in Applying Accounting Policies

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

(a) Classifying Financial Assets at HTM Investments

The Bank follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

In 2008, the BSP and the SEC allowed the reclassification of certain financial assets that were previously classified under FVTPL and AFS categories, due to the tainting in 2006, back to HTM investments or loans and receivables. Accordingly, despite the tainting prohibition until 2008, the Bank reclassified its investments in debt securities previously classified under FVTPL and AFS securities to HTM investments amounting to P18.8 million and P2,130.8 million, respectively, representing the fair value of the reclassified investments on September 11, 2008, the effective date of reclassification (see Note 10), as allowed under FRSP.

On September 14, 2009, however, the Bank reclassified its remaining HTM investments to AFS securities with carrying value of P2,621.7 million (see Note 10). As such, the Bank was not allowed to classify as HTM investments its existing and new acquisitions of financial assets due to tainting until 2011. Starting 2012, the tainting of the Bank has been lifted.

(b) *Impairment of AFS Securities*

The Bank follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. Based on the recent evaluation of information and circumstances affecting the Bank's AFS securities, management concluded that no assets are impaired as of December 31, 2012 and 2011. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) *Distinction between Investment Properties and Owner-occupied Properties*

The Bank determines whether a property qualifies as investment property. In making this judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to other assets used in the production or supply process.

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(d) Classification of Acquired Properties and Fair Value Determination of Other Properties Held-for-Sale and Investment Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as other properties held for sale presented as Miscellaneous under Other Resources if the Bank expects that the properties (including properties other than land and building) will be recovered through sale rather than use, as Investment Properties if the Bank intends to hold the properties for capital appreciation or as Financial Assets in accordance with PAS 39. At initial recognition, the Bank determines the fair value of acquired properties based on fair valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

(e) Distinction between Operating and Finance Leases

The Bank has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.10 and relevant disclosures are presented in Note 24.

3.02 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next financial year:

(a) *Impairment Losses on Financial Assets (AFS Securities and Loans and Other Receivables)*

The Bank reviews its AFS securities and loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of AFS securities and loans and other receivables and the analysis of the related allowance for impairment on such financial assets are shown in Notes 10 and 11, respectively.

(b) *Fair Value of Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument

Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Bank's financial assets at FVTPL and AFS securities and the amounts of fair value changes recognized on those assets are disclosed in Notes 9 and 10, respectively.

(c) *Fair Value of Financial Assets and Liabilities*

Financial assets and liabilities measured at fair value in the statement of financial position are categorized in accordance with the fair value hierarchy based on PFRS 7. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

As of December 31, 2012, AFS securities amounting to P5,784.5 million, are the only financial assets (nil for liabilities) measured at fair value while as of December 31, 2011, financial assets at FVTPL and AFS securities amounting to P207.7 million and P5,710.9 million, respectively, are the only financial assets (nil for liabilities) measured at fair value. The financial asset values are determined under Level 1 of the fair value hierarchy.

There have been no significant transfers among Levels 1, 2 and 3 in the reporting periods.

The following table summarizes the cost and fair values of those financial assets and liabilities not presented in the statement of financial position as financial assets at FVTPL and AFS securities:

	December 31, 2012	
	Cost	**Fair Value**
Financial Resources:		
Cash and other cash items	**P 435,898,545**	**P 435,898,545**
Due from BSP	**3,073,180,153**	**3,073,180,153**
Due from other banks	**1,000,089,458**	**1,000,089,458**
Loans and other receivables	**21,426,766,835**	**20,869,152,721**
Other resources	**46,303,372**	**46,303,372**
Financial Liabilities:		
Deposit liabilities	**P 26,448,886,738**	**P 26,448,886,738**
Bills payable	**765,489,517**	**765,489,517**
Accrued expenses and other liabilities	**1,426,270,239**	**1,426,270,239**

	December 31, 2011	
	Cost	Fair Value
Financial Resources:		
Cash and other cash items	P 297,076,011	P 297,076,011
Due from BSP	1,119,319,376	1,119,319,376
Due from other banks	630,690,655	630,690,655
Loans and other receivables	17,196,311,580	16,704,655,545
Other resources	28,366,598	28,366,598
Financial Liabilities:		
Deposit liabilities	P 21,194,988,117	P 21,194,988,117
Bills payable	121,482,599	121,482,599
Accrued expenses and other liabilities	883,657,913	883,657,913

(i) Due from BSP and other banks

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(ii) Loans and other receivables

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(iii) Other resources

Other resources are composed of foreign currency notes and coins, security deposits and petty cash fund. Due to their short duration, the carrying amounts of these items in the statement of financial position are considered to be reasonable approximation of their fair values.

(iv) Deposits and bills payable

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and bills payable without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amounts of deposits and bills payable already approximate their fair values.

(v) Accrued expenses and other liabilities

Accrued expenses and other liabilities, except for post-employment benefit obligation and tax liabilities, are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

(d) Determining Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Investment Properties Except Land

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of bank premises, furniture, fixtures and equipment and investment properties are analyzed in Notes 12 and 13, respectively. Based on management assessment, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Determining Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount 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. The carrying value of deferred tax assets, which the management assessed to be fully utilized within the next two to three years, as of December 31, 2012 and 2011 is disclosed in Notes 14 and 22.

(f) Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives (i.e. goodwill and acquired branch licenses), PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Allowance for impairment recognized on investment properties and other properties held for sale (presented under Miscellaneous) are discussed in Notes 13 and 14. There are no impairment losses recognized in goodwill, acquired branch licenses, bank premises, furniture, fixtures and equipment.

(g) Valuation of Post-employment Benefits

The determination of the Bank's obligation and cost of post-employment benefit plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20.02 and include, among others, discount rates, expected rate of return on plan assets and expected rate of salary increases. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of DBO are presented in Note 20.02.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity, and operational risks. Credit risk emanates from exposures to borrowing from customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events, including legal risk but excludes reputational risk.

Although risks are inherent in the Bank's activities, these are carefully managed through a process of identification, measurement, and monitoring subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

4.01 Risk Management Milestones for 2012

For the year 2012, various initiatives were taken by the Bank to ensure that it continually improve on its risk management practices to protect its stakeholders and ensure compliance with best practices on risk management.

On risk capital calculation for market risks, the Bank adopted The Standardized Approach ("TSA") under which a general market risk charge for trading portfolio is calculated based on the instrument's coupon and remaining maturity with risk weights ranging from 0% for items with very low market risk (i.e., tenor of less than 30 days) to a high of 12.5% for high risk-items (i.e., tenor greater than 20 years). Capital requirements for specific risk were also calculated for exposures with risk weights ranging from 0% to 8% depending on the issuer's credit rating. This was an off-shoot regulatory requirement after the Bank has been granted by the BSP with Type 3 Limited End-User Authority for FX Swaps.

Under credit risk management, a more comprehensive monthly red flag reporting to the BOD through the Risk Management Committee was initiated.

For market risks, various policies were implemented and revisited to support Treasury's strategy while ensuring that risk tolerance is within acceptable level as set by the BOD. Among the policies include the FX position limits, Value at Risk (VAR) limit, loss limit, and tenor limit, as well as the Maximum Cumulative Outflow (MCO) and Earnings at Risk (EAR) limits. Furthermore, new reports were employed for both market and liquidity risk aimed to closely look into the Bank's trading risks, and interest rate and liquidity position.

As for operational risk, the Bank has completed its bankwide business impact analysis and risk assessment to further improve on the Bank's business continuity management infrastructure. 2012 also marks the year the Risk Management Center (RMC) has taken over the information security risk of the Bank with the turnover of the Information Security Unit to the RMC. During the year, the unit now known as Information Security and Technology Risk Unit, has completed two risk frameworks namely Information Technology (IT) Risk Framework/Manual and the Information Security Manual. Moreover, monthly Information Security and Technology Risk report, such as, security administration profile, virus attacks and security violations form part of the BOD risk reports.

4.02 Enterprise Risk Management Framework

The Bank adopts an Enterprise Risk Management framework as its integrated approach to the identification, measurement, control and disclosure of risks. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Management Committee (RiskCom), which in turn supervises the Chief Risk Officer and Head of the Risk Management Center in the development and implementation of risk policies, processes and guidelines. The Bank's BOD regularly evaluates applicability of key assumptions used in the framework and any changes therein are forthwith considered. The framework covers operational, market and liquidity, credit and counterparty and other downside risks within the context of the supervision by risk guidelines of the BSP and aligned best practices on risk management.

4.03 Credit Risk

Credit risk pertains to the risk to income or capital due to non-payment by borrowers or counterparties of their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the BOD. Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. The Risk Management Center, as guided by the RiskCom, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the RiskCom.

On the transactional level, exposure to credit risk is managed through a credit review process wherein a regular analysis of the ability of the obligors and potential obligors to meet interest and capital repayment obligations is performed. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Moreover, in accordance with best practices, the Bank also adopts an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner as accurately as possible and uses this information as a tool for business and financial decision-making. This rating system covers companies with assets of over P15.0 million and is adopted from the Banker's Association of the Philippines (BAP) model which has been approved by the BSP as a minimum standard for an internal risk rating system under BSP Circular 439. This rating system has two components namely: (a) Borrower Risk Rating System which provides an assessment of credit risk without considering the security arrangements and; (b) Facility Risk Rating which takes into account the collateral and other credit risk mitigants. The rating scale consists of ten (10) grades, the top six (6) of which falls under unclassified accounts and the bottom four (4) under classified accounts, consistent with regulatory provisioning guidelines.

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity of the Bank's capital to BOD-approved credit risk scenarios.

The following table shows the Bank's maximum exposure to credit risk on loans and other receivables as of December 31, 2012 and 2011 (amounts in thousands):

	2012	2011
Individually impaired		
Wholesale and retail trade	**P 421,951**	P 366,921
Real estate, renting and construction	**409,315**	373,836
Manufacturing	**87,631**	592,291
Consumption	**28,688**	56,376
Others	**1,125,617**	1,066,372
Gross amount	**2,073,202**	2,455,796
Allowance for impairment	**(451,979)**	(449,295)
Carrying amount	**1,621,223**	2,006,501
Collectively impaired		
Wholesale and retail trade	**-**	6,721
Others	**2,805**	18,130
Gross amount	**2,805**	24,851
Allowance for impairment	**(2,805)**	(5,759)
Carrying amount	**-**	19,092
Past due but not impaired		
Carrying amount	**4,629**	22,570
Neither past due nor impaired		
Gross amount	**19,346,130**	14,693,095
Allowance for impairment	**(102,830)**	(36,602)
Carrying amount	**19,243,300**	14,656,493
Total carrying amount	**P 20,869,152**	P 16,704,656

In addition to default and concentration risk arising from lending activities, the Bank has an incremental issuer credit risk exposure emanating from Investment Securities and Due from Other Banks amounting to P5,784.5 million and P1,000.1 million, respectively, as of December 31, 2012 and P5,918.6 million and P630.7 million, respectively, as of December 31, 2011. These are considered as neither past due nor impaired.

The carrying amount of the above loans and other receivables are partially secured with collateral mainly consisting of real estate and chattel mortgage.

The Due from BSP account represents the aggregate balance of interest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims. Hence, no significant credit risk is anticipated for this account.

4.04 Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its assets and liabilities, embedded optionality in the loans and deposits due to pre-terminations, and potential cash run offs arising from changes in overall liquidity and funding conditions in the market. Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

4.04.01 Foreign Currency Risk

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's foreign currency exposure is primarily limited to the foreign currency deposits, which are sourced within the Philippines or generated from remittances by Filipino expatriates and overseas Filipino workers. Also, foreign currency trading with corporate accounts and other financial institutions is a source of foreign currency exposure for the Bank. At the end of each month, the Bank reports to the BSP on its acquisition and disposition of foreign currency resulting from its daily transactions.

The breakdown of the financial resources and liabilities as to foreign currency (translated into Philippine pesos) and peso-denominated balances as of December 31, 2012 and 2011 follow (amounts in thousands):

	2012		
	Foreign Currency	**Peso**	**Total**
Financial Resources:			
Cash and other cash items	P -	P 435,899	P 435,899
Due from BSP	-	3,073,180	3,073,180
Due from other banks	864,129	135,960	1,000,089
AFS securities	1,286,940	4,497,597	5,784,537
Loans and other receivables - net	399,546	20,469,607	20,869,153
Other resources	33,269	13,034	46,303

	2012					
		Foreign Currency		**Peso**		**Total**
Financial Liabilities:						
Deposit liabilities	P	2,131,604	P	24,317,283	P	26,448,887
Bills payable		-		765,490		765,490
Accrued expenses and other liabilities		210		1,426,060		1,426,270

	2011					
		Foreign Currency		Peso		Total
Financial Resources:						
Cash and other cash items	P	-	P	297,076	P	297,076
Due from BSP		-		1,119,319		1,119,319
Due from other banks		539,251		91,440		630,691
Financial assets at FVTPL		97,089		110,654		207,743
AFS securities		1,866,194		3,844,672		5,710,866
Loans and other receivables - net		59,727		16,644,929		16,704,656
Other resources		18,339		10,028		28,367
Financial Liabilities:						
Deposit liabilities		2,300,060		18,894,928		21,194,988
Bills payable		-		121,483		121,483
Accrued expenses and other liabilities		224,593		659,065		883,658

4.04.02 Interest Rate Risk

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

In measuring interest rate exposure from an earnings perspective, the Bank calculates the EAR to determine the impact of interest rate changes on the Bank's accrual portfolio. The EAR is the potential decline in net interest income due to the adverse movement in interest rates. To quantify interest rate exposure, the statement of financial position is first classified into interest rate sensitive and non-interest rate sensitive asset and liability accounts and then divided into pre-defined interest rate sensitivity gap tenor buckets with corresponding amounts slotted therein based on the term to next re-pricing date (the re-pricing maturity for floating rate accounts) and remaining term to maturity (the equivalent re-pricing maturity for fixed rate accounts).

The rate sensitivity gaps are calculated for each time band and on a cumulative basis. The gap amount for each bucket is multiplied by an assumed change in interest rate to determine EAR. A negative interest rate sensitivity gap position implies that EAR increases with a rise in interest rates, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall. To supplement the EAR, the Bank regularly employs sensitivity analysis on the Bank's interest rate exposure.

To mitigate interest rate risk, the Bank follows a prudent policy on managing assets and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the EAR Limit which is reviewed regularly
The analyses of the groupings of resources, liabilities, equity and off-statement of position items as of December 31, 2012 and 2011 based on the expected interest realization or recognition are presented below (amounts in thousands).

	2012					
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
Resources						
Cash and other cash items	P -	P -	P -	P -	P 435,899	P 435,899
Due from BSP	-	-	-	-	3,073,180	3,073,180
Due from other banks	-	-	-	-	1,000,089	1,000,089
Investment securities	-	12,519	-	5,772,018	-	5,784,537
Loans and other receivables - net	13,895,370	2,581,732	1,041,690	2,796,671	553,690	20,869,153
Other resources	-	-	-	-	46,303	46,303
Total Resources	13,895,370	2,594,251	1,041,690	8,568,689	5,109,161	31,209,161
Liabilities and Equity						
Deposit liabilities	4,745,448	8,931,734	3,929,460	342,640	8,499,605	26,448,887
Bills payable	711,342	54,148	-	-	-	765,490
Accrued expenses and other liabilities	-	-	-	-	1,426,270	1,426,270
Total Liabilities	5,456,790	8,985,882	3,929,460	342,640	9,925,875	28,640,647
Equity	-	-	-	-	4,402,352	4,402,352
Total Liabilities and Equity	5,456,790	8,985,882	3,929,460	342,640	14,328,,227	33,042,999
On-book Gap	8,438,580	(6,391,631)	(2,887,770)	8,226,049	(9,219,066)	(1,833,838)
Cumulative On-book Gap	8,438,850	2,046,949	(840,821)	7,385,228	(1,833,838)	-
Contingent Resources	29,443	192,181	1,000	1,357,141	-	1,579,765
Contingent Liabilities	-	-	-	-	769,381	769,381
Off-book Gap	29,443	192,181	1,000	1.357.141	(769,381)	810,384
Net Periodic Gap	8,468,023	(6,199,449)	(2,886,770)	9,583,189	(9,988,447)	(1,023,454)
Cumulative Total Gap	**P 8,468,023**	**P 2,268,574**	**(P 618,197)**	**P 8,964,992**	**(P 1,023,454)**	**P -**

	2011					
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
Resources						
Cash and other cash items	P -	P -	P -	P -	P 297,076	P 297,076
Due from BSP	-	-	-	-	1,119,319	1,119,319
Due from other banks	-	-		-	630,691	630,691
Investment securities	112,860	-	10,618	5,795,131	-	5,918,609
Loans and other receivables - net	12,385,755	1,265,648	844,670	1,841,745	366,838	16,704,656
Other resources	-	-	-	-	28,367	28,367
Total Resources	12,498,615	1,265,648	855,288	7,636,876	2,442,291	24,698,718
Liabilities and Equity						
Deposit liabilities	2,710,215	7,916,731	3,269,641	197,135	7,101,266	21,194,988
Bills payable	-	120,925	-	-	558	121,483
Accrued expenses and other liabilities	-	-	-	-	883,658	883,658
Total Liabilities	2,710,215	8,037,656	3,269,641	197,135	7,985,482	22,200,129
Equity	-	-	-	-	3,672,736	3,672,736
Total Liabilities and Equity	2,710,125	8,037,656	3,269,641	197,135	11,658,218	25,872,865
On-book Gap	9,788,400	(6,772,008)	(2,414,353)	7,439,741	(9,215,927)	(1,174,147)
Cumulative On-book Gap	9,788,400	3,016,392	602,039	8,041,780	(1,174,147)	(2,348,294)
Contingent Resources	783,716	-	-	1,148,325	-	1,932,041
Contingent Liabilities	-	-	-	-	1,193,989	1,193,989
Off-book Gap	783,716	-	-	1,148,325	(1,193,989)	738,052
Net Periodic Gap	10,572,116	(6,772,008)	(2,414,353)	8,588,066	(10,409,916)	(436,095)
Cumulative Total Gap	P 10,572,116	P 3,800,108	P 1,385,755	P 9,973,821	(P 436,095)	P -

4.04.03 Price Risk

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding government and other debt securities, the Bank employs VaR methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement (i.e. losses could exceed the VaR in one out of 100 trading days).

In calculating the severity of the market risk exposure for fixed income securities, the Bank takes into account the cash flow weighted term or modified duration of the securities comprising the portfolio, the yield to maturity, and mark-to-market value of the component securities position in the trading book. As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the Philippine Dealing Exchange Corporation and Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.
In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or holding periods that range from one day and 10 days consistent with best practices and BSP standards.

As a prudent market risk control and compliance practice, the BOD has approved a market risk limit system which includes: (1) VaR limit on a per instrument and portfolio; (2) loss limit on per investment portfolio (3) off-market rate limits on per instrument type; and (4) holding period for investment securities.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

The table below shows the VaR position of the Bank's financial assets at FVTPL and AFS portfolios as at December 31, 2012 and 2011.

	2012			
Term	**Yield to Maturity**	**Rate Volatility**	**VaR**	**VaR (10-day Defeasance)***
Over 3 months	--	--	P --	P --
6 months	0.63%	5.87%	6,075	19,210
27,662				
1 year	1.10%	4.40%	23,196	73,353
2 years	--	--	--	--
3 years	5.68%	4.32%	68,851	217,725
4 years	3.93%	4.34%	1,299,466	4,109,272
5 years	--	--	--	--
7 years	5.32%	1.49%	4,005,920	12,667,832
10 years	4.01%	2.53%	18,160,894	57,429,789
20 years	5593%	0.94%	87,452,469	276,548,988

	2011			
Term	Yield to Maturity	Rate Volatility	VaR	VaR (10-day Defeasance)*
Over 3 months	1.38%	20.03%	P --	P --
6 months	1.55%	11.14%	--	--
1 year	1.58%	12.48%	29,131	92,119
2 years	2.17%	5.49%	49,656	157,026
3 years	3.17%	3.03%	66,802	211,245
4 years	4.20%	2.63%	--	--
5 years	4.21%	2.11%	114,574	362,314
7 years	4.68%	3.41%	6,901,705	21,825,108
10 years	5.08%	2.75%	11,267,914	36,770,694
20 years	6.10%	0.70%	78,981,805	249,762,397

* *Blank entries suggest that the Bank has no holdings pertaining to that term*

Stress test on the December 31, 2012 and 2011 portfolio shows the potential impact on profit and Equity of parallel increase in interest rates of financial assets at FVTPL and AFS securities as follows:

2012				
	Current	**Sensitivities**		
Currency	**Market Value**	**+100 bps**	**+300 bps**	**+500 bps**
Peso	P4,497,597,110	(P 510,920,994)	(P1,532,762,982)	(P 2,554,604,971)
United States (US) Dollar	1,286,939,479	(143,873,333)	(431,620,000)	(719,366,667)
Total	**P5,784,536,589**	**(P654,794,327)**	**(P1,964,382,982)**	**(P 3,273,971,638)**

2011				
	Current	Sensitivities		
Currency	Market Value	+100 bps	+300 bps	+500 bps
Peso	P3,955,326,237	(P458,062,753)	(P1,374,188,258)	(P 2,290,313,764)
US Dollar	1,963,282,179	(180,754,563)	(542,263,688)	(903,772,813)
Total	P5,918,608,416	(P638,817,316)	(P1,916,451,946)	(P 3,194,086,577)

4.04.04 Liquidity Risk

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank's statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the bank called MCO limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the RiskCom prior to the confirmation by the BOD.

The analysis of the cash flow gap analysis of resources, liabilities, equity and off-statement financial position items as of December 31, 2012 and 2011 is presented below (amounts in thousands).

	2012				
	Less than One Month	**One to Three Months**	**Three Months to One Year**	**More than One Year**	**Total**
Resources:					
Cash and other cash items	P 435,899	P -	P -	P -	P 435,899
Due from BSP	3,073,180	-	-	-	3,073,180
Due from other banks	1,000,089	-	-	-	1,000,089
Investment securities	-	12,519	-	5,772,018	5,784,537
Loans and other receivables	4,037,469	5,841,434	5,473,295	5,516,955	20,869,153
Other resources	644,159	-	85,912	1,204,336	1,934,407
Total Resources	9,190,796	5,853,953	5,559,207	12,493,309	33,097,265
Liabilities and Equity:					
Deposit liabilities	11,836,943	2,742,416	1,006,487	10,863,041	26,448,887
Bills payable	117,780	286,344	205,310	156,056	765,490
Accrued expenses and other liabilities	483,263	966,042	1,738	29,494	1,480,537
Total Liabilities	12,437,986	3,994,802	1,213,535	11,048,591	28,694,914
Capital Funds	-	-	-	4,402,351	4,402,351
Total Liabilities and Capital Funds	12,437,986	3,994,802	1,213,535	15,450,942	33,097,265
On-book Gap	(3,247,190)	1,859,151	4,345,672	(2,957,633)	-
Cumulative On-book Gap	(3,247,190)	(1,388,039)	2,957,633	-	-
Contingent Resources	29,443	192,181	1,000	1,357,141	1,579,765
Contingent Liabilities	38,796	277,209	447,650	5,726	769,381
Off-book Gap	(9,353)	(85,028)	(446,650)	1,351,415	810,384
Net Periodic Gap	(3,256,543)	1,774,123	3,899,022	(1,606,218)	810,384
Cumulative Total Gap	**(P 3,256,543)**	**(P 1,482,420)**	**P 2,416,602**	**P 810,384**	**P -**

	2011				
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
Resources:					
Cash and other cash items	P 297,076	P -	P -	P -	P 297,076
Due from BSP	1,119,319	-	-	-	1,119,319
Due from other banks	262,691	368,000	-	-	630,691
Investment securities	-	-	10,618	5,907,991	5,918,609
Loans and other receivables	6,332,128	3,592,324	3,151,993	3,691,211	16,704,656
Other resources	213,535	-	84,428	910,516	1,214,469
Total Resources *(Balance Brought Forward)*	P 8,224,749	P 3,897,324	P 3,247,039	P 10,515,707	P 25,884,819

	2011				
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
Total Resources *(Balance Carried Forward)*	P 8,224,749	P 3,897,324	P 3,247,039	P 10,515,707	P 25,884,819
Liabilities and Equity:					
Deposit liabilities	14,242,388	4,870,765	1,802,354	279,481	21,194,988
Bills payable	558	120,925	-	-	121,483
Accrued expenses and other liabilities	827,023	2,970	60,460	5,159	895,612
Total Liabilities	15,069,969	4,994,660	1,862,814	284,640	22,212,083
Capital Funds	-	-	-	3,672,736	3,672,736
Total Liabilities and Capital Funds	15,069,969	4,994,660	1,862,814	3,957,376	25,884,819
On-book Gap	(6,845,220)	(1,097,336)	1,384,225	6,558,331	-
Cumulative On-book Gap	(6,845,220)	(7,942,556)	(6,558,331)	-	-
Contingent Resources	783,716	-	-	1,148,325	1,932,041
Contingent Liabilities	137,228	399,777	637,417	19,567	1,193,989
Off-book Gap	(646,488)	(399,777)	(637,417)	1,128,758	738,052
Net Periodic Gap	(6,198,732)	(1,497,113)	746,808	7,687,089	735,052
Cumulative Total Gap	(P 6,198,732)	(P 7,695,845)	(P 56,949,037)	P 738,052	P -

The negative liquidity gap in the MCO is due to the timing difference in the contractual maturities of assets and liabilities. The MCO measures the maximum funding requirement the Bank may need to support its maturing obligations. To ensure that the Bank maintains a prudent and manageable level of cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of tradable investment securities. Moreover, the BOD has approved the MCO Limits which reflect the Bank's overall appetite for liquidity risk exposure. Compliance to MCO Limits is monitored and reported to the BOD and senior management. The MCO of the Bank as of December 31, 2012 is much within the MCO Limit set by the Board. In case of breach in the MCO Limit, the Risk Management Center elevates the concern to the Board through the Risk Committee for corrective action.

Additional measures to mitigate liquidity risks include reporting of funding concentration, available funding sources and liquid assets analysis. More frequent analysis of projected funding source and requirements as well as pricing strategies are discussed thoroughly during the weekly Asset and Liability Committee meetings.

5. CAPITAL MANAGEMENT AND REGULATORY CAPITAL

The Bank's lead regulator, the BSP, sets and monitors capital requirements of the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital-to-risk assets.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio is total equity excluding:

a. unbooked valuation reserves and other capital adjustments as may be required by the BSP;
b. total outstanding unsecured credit accommodations to Directors, Officers, Stockholders and Related Interests (DOSRI);
c. deferred tax asset or liability;
d. goodwill;
e. sinking fund for redemption of redeemable preferred shares; and,
f. other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

A bank's regulatory capital is analyzed into two tiers, which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital for the following:

a. Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;

b. Investments in debt capital instruments of unconsolidated subsidiary banks;

c. Investments in equity of subsidiary insurance companies and non-financial allied undertakings;

d. Reciprocal investments in equity of other banks/enterprises; and,

e. Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks,

Provided*,* that any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

There were no material changes in the Bank's management of capital during the current year.

As of December 31, 2012 and 2011, the Bank has satisfactorily complied with the capital-to-risk assets ratio (see Note 26).

During 2010, under the then existing BSP circular, thrift and savings banks whose head office is located within Metro Manila, and with FCDU and trust operations, are required to comply with the minimum capital requirement of P650.0 million. As of December 31, 2012 and 2011, the Bank has equity amounting to P4,402.4 million and P3,672.7 million, respectively. Hence, the Bank has complied with the foregoing capitalization requirement.

In 2011, BSP approved the increase of the related minimum capital requirement for thrift and savings bank to P1.0 billion but which shall apply only: (1) upon establishment of a new thrift bank; (2) upon conversion of an existing bank to a thrift bank; and, (3) upon relocation of the head office of a thrift bank in areas of higher classification. None of the three situations mentioned above apply to the Bank, hence, the Bank has complied with the minimum capitalization requirement of P650.0 million for thrift banks with FCDU and trust operations as of December 31, 2012.

6. SEGMENT REPORTING

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's three service lines as primary operating segments.

(a) ***Consumer banking*** – includes auto financing, home financing, and salary or personal loans;

(b) ***Commercial banking*** – includes term loans, working capital credit lines, bills purchase and discounting lines; and,

(c) ***Treasury Operations*** – manages liquidity of the Bank and is a key component in revenue and income generation through its investment and trading activities.

These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

The contribution of these various business activities to the Bank's revenues and income for the years 2012, 2011 and 2010 follow (in millions):

	Commercial Banking	Consumer Banking	Treasury Operations	Total
December 31, 2012				
Statement of Income				
Net interest income	P 825	P 76	P 172	P 1,073
Non-interest income	170	-	715	885
Total income (after interest expense)	995	76	887	1,958
Operating expenses	(745)	(38)	(464)	(1,247)
Pre-tax profit	250	38	423	711
Net profit	P 241	P 35	P 378	P 654
Statement of Financial Position				
Total Resources				
Segment assets	P 20,621	P 1,126	P 10,841	P 32,588
Intangible assets	-	-	-	317
Deferred tax assets	-	-	-	192
	P 20,621	P 1,126	P 10,841	P 33,097
Total Liabilities	P 16,422	P 940	P 11,333	P 28,695
Other segment information				
Depreciation and amortization	P 44	P 3	P 31	P 78
Capital expenditures	P 163	P 9	P 112	P 284
December 31, 2011				
Statement of Income				
Net interest income	P 627	P 68	P 391	P 1,086
Non-interest income	168	-	595	763
Total income (after interest expense)	795	68	986	1,849
Operating expenses	(600)	(59)	(343)	(1,002)
Pre-tax profit	195	9	643	847
Net profit	P 172	P 7	P 568	P 747

	Commercial Banking	Consumer Banking	Treasury Operations	Total
December 31, 2011				
Total Resources				
Segment assets	P 16,216	P 1,054	P 8,338	P 25,608
Intangible assets	-	-	-	117
Deferred tax assets)	-	-	-	160
	P 16,216	**P 1,054**	**P 8,338**	**P 25,885**
Total Liabilities	P 11,165	P 924	P 10,123	P 22,212
Other segment information				
Depreciation and amortization	P 32	P 2	P 29	P 63
Capital expenditures	P 80	P 7	P 72	P 159
December 31, 2010				
Statement of Income				
Net interest income	P 564	P 85	P 261	P 910
Non-interest income	173	-	608	781
Total Income (after interest expense)	737	85	869	1,691
Operating expenses	(656)	(49)	(300)	(1,005)
Pre-tax profit	81	36	569	686
Net profit	P 80	P 37	P 566	P 683
Other segment information				
Depreciation and amortization	P 28	P 3	P 18	P 49
Capital expenditures	P 14	P 1	P 9	P 25

7. CASH AND DUE FROM BSP

This account is composed of the following:

	2012	2011
Cash and other cash items	**P 435,898,545**	P 297,076,011
Due from BSP		
Mandatory reserves	**1,488,180,153**	368,000,000
Other than mandatory reserves	**1,585,000,000**	751,319,376
	3,073,180,153	1,119,319,376
	P 3,509,078,698	P 1,416,395,387

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including automated teller machines. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on the other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims.

Due from BSP bears annual effective interest rates ranging from 0.00% to 4.07% in 2012, 0.13% to 0.25% in 2011, and 0.20% to .38% for 2010, except for the amounts within the required reserve as determined by the BSP. Total interest income earned amounted to P14.5 million, P16.9 million and P9.4 million in 2012, 2011 and 2010, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of income.

Under Section 254 of the Manual of Regulations for Banks (MORB), a bank is required to maintain at least 25% of its reserve requirements in the form of deposits with the BSP as among the allowable instruments for reserve cover. Section 254.1 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposits shall be limited to (a) settlement of obligations with the BSP, and (b) withdrawals to meet cash requirements.

Starting April 6, 2012, upon effectivity of BSP Circular No. 753 Series of 2012 (the Circular), required reserves of banks shall be kept in the form of deposits placed in the banks' demand deposit accounts with the BSP. As part of the transitory provisions, reserve deposit account that are maintained by banks in the reserve deposit account (RDA) with BSP, which are used in compliance with liquidity reserve requirement as of the effectivity of the Circular was eligible only until the accounts mature. Accordingly, RDA facility was discontinued and BSP will no longer accept new RDA placement from banks. This resulted to the nil balance of RDA as of December 31, 2012. Also, cash in vault presented as part of Cash and other cash items, shall be eligible for compliance with the reserve requirement only until the effectivity of the Circular.

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2012	2011
Local banks	**P 796,043,987**	P 482,974,569
Foreign banks	**204,045,471**	147,716,086
	P 1,000,089,458	P 630,690,655

Interest rates on these deposits range from 0.01% to 2.75%, 0.25% to 2.75% and 0.25% to 2.50% per annum in 2012, 2011 and 2010, respectively. Total interest income earned amounted to P8.0 million, P2.4 million and P5.6 million in 2012, 2011 and 2010, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of income.

The breakdown of due from other banks by currency follows:

	2012	2011
US dollars	**P 864,129,447**	P 539,250,930
Philippine pesos	**135,960,011**	91,439,725
	P 1,000,089,458	P 630,690,655

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held-for-trading government securities with fair value amounting P207.7 million as of December 31, 2011 (nil in 2012). Interest rates on these investments range from 5.75% to 8.13%, 6.38% to 8.13%, and 6.25% to 8.75% per annum in 2012, 2011 and 2010, respectively. Total interest income earned amounted to P93.1 million, P19.1 million and P1.1 million in 2012, 2011 and 2010, respectively, and is included as part of Interest Income on Investment and Trading Securities in the statements of income. Related unrealized fair value gains or loss, presented as part of Trading Gains - net in the 2011 statement of income, amounted to a gain of P5.5 million (nil in 2012 and 2010). Realized trading gains, presented as part of Trading Gains – net in the 2012, 2011 and 2010 statements of income, amounted to P91.5 million, P111.8 million, and P21.5 million, respectively.

10. AVAILABLE-FOR-SALE SECURITIES

This account is mainly composed of the following:

	2012	2011
Government securities	**P 4,895,202,574**	P 4,959,486,972
Other private debt instruments	**889,334,015**	751,378,548
	P 5,784,536,589	P 5,710,865,520

As to currency, this account consists of the following:

	2012	2011
Philippine pesos	**P 4,497,597,109**	P 3,844,671,779
Foreign currencies	**1,286,939,480**	1,866,193,741
	P 5,784,536,589	P 5,710,865,520

Changes in the AFS securities are summarized below.

	2012	2011
Balance at beginning of year	**P 5,710,865,521**	P 6,623,022,640
Additions	**13,528,772,418**	10,977,153,805
Disposals	**(13,137,527,190)**	(12,333,414,967)
Fair value gains	**185,130,710**	467,638,969
Foreign currency revaluation	**(119,891,281)**	4,944,443
Amortization of premium	**(382,813,589)**	(28,479,370)
Balance at end of year	**P 5,784,536,589**	P 5,710,865,520

The reconciliation of unrealized fair value gains (losses) on AFS securities reported under equity is shown below.

	2012	2011	2010
Balance at beginning of year	**P 521,895,286**	P 59,976,876	(P 6,092,748)
Changes during the year:			
Fair value gains during the year	**185,130,710**	467,638,969	45,184,502
Amortization of fair value loss (gain) on reclassified AFS securities	**(206,786)**	(287,165)	2,719,038
Realized fair value losses (gains) on AFS securities disposed during the year - net	**(384,243,410)**	(5,433,394)	18,166,084
	(199,319,486)	461,918,410	66,069,624
Balance at end of year	**P322,575,800**	P 521,895,286	P 59,976,876

Other private debt instruments including debt securities issued by foreign corporations as of December 31, 2012 and 2011 amounted to P593.2 million and P278.0 million, respectively, while those issued by local corporations amounted to P296.1 million and P473.4 million, respectively. AFS securities earn interest of 4.3% to 9.1%, 5.5% to 11.4% and 6.3 to 12.0% per annum in 2012, 2011 and 2010, respectively. Total interest income earned amounted to P253.9 million, P528.8 million, and P381.9 million in 2012, 2011 and 2010, respectively, and are included as part of Interest Income on Investment and Trading Securities in the statements of income. Fair value gains recycled to profit or loss from equity resulting from the sale of AFS securities amounted to a gain of P384.2 million and P5.4 million in 2012 and 2011 respectively, and a loss of P18.2 million in 2010. These are included as part of Trading Gains - net in the statements of income. Realized trading gains, presented as part of Trading Gains – net in the 2012, 2011 and 2010 statements of income, amounted to P621.5 million, P422.6 million and P540.7 million, respectively.

In 2008, the BSP under Circular No. 628 and pursuant to the amendments to PAS 39 and PFRS 7 allowed the reclassification of financial assets previously classified as AFS securities due to the tainting of HTM investments portfolio back to HTM category for prudential reporting purposes which was also approved by the SEC for financial reporting purposes. Accordingly, the Bank reclassified certain financial assets previously classified as financial assets at FVTPL and AFS securities to HTM investments.

The fair value of AFS securities reclassified amounted to P2,130.8 million including fair value loss of P36.1 million as of the date of reclassification on September 11, 2008. The annual effective interest rates of the reclassified securities ranged from 3.85% to 8.23%.

Presented below is the analysis of the fair value of the remaining financial assets reclassified from AFS securities to HTM investments.

	2012	2011
Fair value	**P 12,560,943**	P 23,889,073
Book value	**(12,112,007)**	(22,614,861)
Fair value gain recognized in equity of the outstanding reclassed securities	**P 448,936**	P 1,274,212

The unamortized fair value gains related to debt securities previously reclassified from AFS category to HTM investments amounted to P0.2 million and P0.5 million in 2012 and 2011, respectively. These amounts will be amortized over the remaining life of the reclassified investments or recognized to profit or loss upon sale, whichever comes earlier. Portion of fair value gain in comprehensive income amortized to profit or loss amounted to P0.2 million and P0.3 million for 2012 and 2011, respectively. In 2010, portion of fair value loss in comprehensive income amortized to profit or loss amounted to P2.7 million. There is no impact to total equity had the Bank not made the reclassification in 2008 since the Bank was subsequently tainted on its HTM investments and it reclassified all HTM investments to AFS securities as discussed below.

On September 14, 2009, in light of the improving market conditions, the Bank decided to reclassify the remaining securities reclassified to HTM investments in 2008 as discussed above to AFS securities and subsequently disposed a portion of the same. The carrying value of the HTM investments as of the date of reclassification in 2009 amounted to P2,621.7 million. Of the securities reclassified, P555.1 million was sold during 2009. Due to the Bank's change in intention and inability to hold the HTM investments until their maturity, the Bank is not allowed to classify any of its financial assets to HTM investments until end of 2011.

The fair values of AFS securities have been determined directly by reference to published prices in an active market.

In compliance with current banking regulations relative to the Bank's trust functions, certain AFS securities of the Bank, with face value of P26.3 million for both 2012 and 2011, are deposited with the BSP (see Note 25).

As of December 31, 2011, certain AFS securities, with face value of P958.0 million (nil in 2012) were assigned to another bank for the faithful observance of the Bank's obligation in its undertaking arising from letters of credit extended to its borrowers (see Note 26).

11. LOANS AND OTHER RECEIVABLES

Loans and other receivables consist of the following:

	2012	2011
Receivables from customers:		
Loans and discounts	**P 16,289,726,871**	P 11,108,879,023
Bills purchased	**742,197,945**	596,139,950
Customers' liabilities on acceptances, letters of credit and trust receipts	**2,650,658,670**	1,905,973,799
	19,682,583,486	13,610,992,772
Unearned discount	**(50,518,495)**	(54,740,908)
	19,632,064,991	13,556,251,864
Other receivables:		
Unquoted debt securities	**1,450,850,479**	620,409,664
Accrued interest receivable	**114,753,768**	103,640,510
Sales contracts receivable	**94,217,865**	44,809,169
Accounts receivable	**86,343,332**	58,001,421
Deficiency claims receivable - net	**43,366,498**	59,198,952
SPURRA	**-**	2,754,000,000
Others	**5,169,902**	-
	1,794,701,844	3,640,059,716
	21,426,766,835	17,196,311,580
Allowance for impairment losses	**(557,614,114)**	(491,656,035)
	P 20,869,152,721	P 16,704,655,545

On various dates in 2002, the Bank purchased P259.0 million face value of the 10-year Poverty Eradication and Alleviation Certificates (PEACe) bonds, in the belief that these were tax-exempt. Said bonds were issued by the Bureau of Treasury (BTr) in 2001 which matured on October 18, 2011. As of December 31, 2012 and 2011, the Accounts receivable includes P36.7 million set up by the Bank for the final tax withheld by the BTr upon maturity of the bonds subject to the issuance of a Supreme Court decision on the matter. Management believes that recoverability of the final tax on PEACe bonds is still probable.

As of December 31, 2012 and 2011, non-performing loans of the Bank amounted to P607.6 million and P488.7 million, respectively, while restructured loans amounted to P133.5 million and P77.8 million, respectively.

A summary of the Bank's maximum exposure to credit risk on loans and other receivables is disclosed in Note 4.03.

The maturity profile of the Bank's loans and discounts follows (amounts in thousands):

	2012	2011
Within one year	P 15,620,655	P 10,626,504
Beyond one year	4,061,928	2,984,489
	P 19,682,583	P 13,610,993

The Bank's concentration of credit as to industry for its loans and discounts portfolio follows (amounts in thousands):

	2012	2011
Wholesale and retail trade	P 7,371,658	P 5,173,022
Manufacturing (various industries)	3,397,525	2,642,610
Real estate, renting and other related activities	2,484,314	1,897,755
Agriculture	495,271	279,852
Others	5,933,815	3,617,754
	P 19,682,583	P 13,610,993

As to security, loans and discounts are classified into the following (amounts in thousands):

	2012	2011
Secured:		
Real estate mortgage	P 5,946,384	P 4,196,180
Deposit hold-out	1,475,719	664,099
Chattel mortgage	1,431,387	958,672
Others	238,238	328,846
Unsecured	10,590,855	7,463,196
	P 19,682,583	P 13,610,993

The changes in the allowance for impairment losses on loans and other receivables are summarized below.

	2012	2011
Balance at beginning of year	P 491,656,035	P 488,658,104
Provision for impairment losses	65,948,079	50,000,000
Recovery	10,000	-
Write-off	-	(47,002,069)
Balance at end of year	P 557,614,114	P 491,656,035

Of the total loans and discounts of the Bank as of December 31, 2012 and 2011, 88.46% and 82.55%, respectively, are subject to periodic interest repricing.

Annual effective interest rates of loans and discounts range from 2.0% to 22.0% in 2012, 3.75% to 22.0% in 2011, and 1.4% to 26.0% in 2010, while the annual effective interest rates of interest-bearing other receivables range from 4.0% to 10.4% and 4.5% to 10.5% in 2012, 2011 and 2010, respectively. Total interest income earned from loans and discounts amounted to P1,203.8 million, P957.4 million, and P1,077.5 million, in 2012, 2011 and 2010, respectively, while total interest income earned from interest-bearing other receivables amounted to P133.6 million, P133.5 million and P34.8 million in 2012, 2011 and 2010, respectively. These are presented as Interest Income on Loans and Other Receivables and SPURRA in the statements of income.

Loans receivables amounting to P0.9 billion and P0.1 billion as of December 31, 2012 and 2011, respectively, are pledged as collaterals to secure borrowings under rediscounting privileges (see Note 16).

Realized trading gains on sale of unquoted debt securities, presented as part of Trading Gains – net in the 2011 and 2010 statements of income, amounted to P55.0 million and P46.0 million, respectively (nil in 2012).

12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2012 and 2011 are shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
December 31, 2012						
Cost	P 77,747,556	P 95,129,253	P 203,109,351	P 90,288,943	P 203,031,977	P 669,307,080
Accumulated depreciation and amortization	-	(26,939,121)	(118,350,928)	(32,754,613)	(92,767,261)	(270,811,923)
Net carrying amount	**P 77,747,556**	**P 68,190,132**	**P 84,758,423**	**P 57,534,330**	**P 110,264,716**	**P 398,495,157**
December 31, 2011						
Cost	P 77,747,556	P 96,962,603	P 168,059,971	P 78,232,912	P146,190,209	P 567,193,251
Accumulated depreciation and amortization	-	(25,250,296)	(100,557,680)	(31,148,279)	(69,412,884)	(226,369,139)
Net carrying amount	P 77,747,556	P 71,712,307	P 67,502,291	P 47,084,633	P 76,777,325	P 340,824,112
January 1, 2011						
Cost	P 77,747,556	P 96,801,339	P 172,984,840	P 55,345,464	P123,495,003	P 526,374,202
Accumulated depreciation and amortization	-	(23,229,836)	(103,877,899)	(27,323,335)	(51,572,237)	(206,003,307)
Net carrying amount	P 77,747,556	P 73,571,503	P 69,106,941	P 28,022,129	P 71,922,766	P 320,370,895

A reconciliation of the carrying amounts at the beginning and end of 2012 and 2011 is shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
Balance at January 1, 2012, net of accumulated depreciation and amortization	P 77,747,556	P 71,712,307	P 67,502,291	P 47,084,633	P 76,777,325	P 340,824,112
Net additions (disposal)	-	(1,833,351)	40,951,913	26,464,968	57,787,734	123,371,264
Depreciation and amortization charges for the year	-	(1,688,824)	(23,695,781)	(16,015,271)	(24,300,343)	(65,700,219)
Balance at December 31, 2012, net of accumulated depreciation and amortization	**P 77,747,556**	**P 68,190,132**	**P 84,758,423**	**P 57,534,330**	**P 110,264,716**	**P 398,495,157**
Balance at January 1, 2011, net of accumulated depreciation and amortization	P 77,747,556	P 73,571,503	P 69,106,941	P 28,022,129	P 71,922,766	P 320,370,895
Net additions	-	411,103	17,628,695	30,683,631	22,695,205	71,418,634
Depreciation and amortization charges for the year	-	(2,270,299)	(19,233,345)	(11,621,127)	(17,840,646)	(50,965,417)
Balance at December 31,2011, net of accumulated depreciation and amortization	P 77,747,556	P 77,712,307	P 67,502,291	P 47,084,633	P 76,777,325	P 340,824,112

The BSP requires that investment in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2012 and 2011, the Bank has satisfactorily complied with this requirement.

13. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation, except for a certain property which is leased out to a third party. Rental income from investment property amounted to P1.4 million, presented as part of Others under Miscellaneous Income in the 2012 statement of income as disclosed in Note 19.01 (nil in 2011 and 2010). The related real estate taxes on investment properties amounting to P0.1 for the year ended December 31, 2012 were recognized as a related expense in 2012 (nil in 2011 and 2010).

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2012 and 2011 are shown below.

	Land	Buildings and Improvements	Total
December 31, 2012			
Cost	P 460,377,978	P 153,493,072	P 613,871,050
Accumulated depreciation	-	(33,866,275)	(33,866,275)
Allowance for impairment	(20,849,654)	(9,917,701)	(30,767,355)
Net carrying amount	**P 439,528,324**	**P 109,709,096**	**P 549,237,420**
December 31, 2011			
Cost	P 355,357,966	P 93,960,707	P 449,318,673
Accumulated depreciation	-	(27,627,805)	(27,627,805)
Allowance for impairment	(17,647,692)	(6,650,032)	(24,297,724)
Net carrying amount	P 337,710,274	P 59,682,870	P 397,393,144
January 1, 2011			
Cost	P 248,926,511	P 80,886,548	P 329,813,059
Accumulated depreciation	-	(23,366,623)	(23,366,623)
Allowance for impairment	(14,913,782)	(9,003,943)	(23,917,725)
Net carrying amount	P 234,012,729	P 48,515,982	P 282,528,711

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2012 and 2011 is shown below.

	Land	Buildings and Improvements	Total
Balance at January 1, 2012, net of accumulated depreciation and impairment	P 337,710,274	P 59,682,870	P 397,393,144
Additions	218,036,288	65,482,410	283,518,698
Disposals	(113,016,276)	(799,312)	(113,815,588)
Impairment loss for the year	(3,201,962)	(3,267,669)	(6,469,631)
Depreciation for the year	-	(11,389,203)	(11,389,203)
Balance at December 31, 2012, net of accumulated depreciation and impairment	**P 439,528,324**	**P 109,709,096**	**P 549,237,420**
Balance at January 1, 2011, net of accumulated depreciation and impairment	P 234,012,729	P 48,515,982	P 282,528,711
Additions	127,494,539	31,763,000	159,257,539
Disposals	(23,796,994)	(9,953,847)	(33,750,841)
Depreciation for the year	-	(10,642,265)	(10,642,265)
Balance at December 31, 2011, net of accumulated depreciation and impairment	P 337,710,274	P 59,682,870	P 397,393,144

The fair value of investment properties, based on the latest appraised values at the end of each reporting period, as determined by internal or external appraisers are shown below.

	2012	2011
Land	**P 448,131,330**	P 369,113,210
Building and improvements	**144,192,918**	82,345,048
	P 592,324,248	P 451,458,258

Additions to investment properties include gain on foreclosure amounting to P4.5 million, P31.5 million and P9.1 million for the periods ended December 31, 2012, 2011 and 2010, respectively. These are presented as part of Gain on foreclosure under Miscellaneous Income in the statements of income (see Note 19.01).

In 2012 and 2011, gains on sale of investment properties amounted to P11.7 million and P9.8 million, respectively, and are presented as part of Gain on sale of properties under Miscellaneous Income in the statements of income (see Note 19.01). On the other hand, in 2010, loss on sale of investment properties amounting to P12.1 million was recognized and is presented as part of Loss on sale of properties under Miscellaneous Expense in the 2010 statement of income (see Note 19.02).

14. OTHER RESOURCES

This account consists of the following as of December 31:

	Note	2012	2011
Due from head office or branches		**P 342,707,056**	P 140,369,137
Branch licenses		**246,500,000**	20,000,000
Deferred tax assets - net	22	**192,465,883**	159,606,709
Goodwill		**49,878,393**	49,878,393
Foreign currency notes and coins on hand		**33,269,353**	18,339,274
Computer software - net		**20,662,395**	21,393,222
Security deposits		**19,045,693**	10,027,324
Deferred charges		**17,643,424**	17,643,424
Prepaid expenses		**15,446,701**	2,339,797
Creditable withholding tax		**14,834,740**	-
Stationery and supplies		**13,839,505**	6,446,612
Miscellaneous		**38,025,018**	47,850,965
		1,004,318,161	493,894,857
Allowance for impairment		**(17,643,424)**	(17,643,424)
		P 986,674,737	P 476,251,433

14.01 Branch Licenses

Branch licenses as of December 31, 2011 pertain to the Bank's acquisition of the four licenses from Prime Savings Bank, Inc. for a total consideration of P20 million.

In November 2011, the Monetary Board of BSP approved the request of the Bank to establish fifteen branches in selected restricted cities in Metro Manila for a total consideration of P226.5 million which was paid by the Bank to the BSP in January 2012.

14.02 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of Kabalikat Rural Bank, Inc. (KRBI) at the date of merger in 2010.

On April 22, 2008, the Bank entered into a Purchase Agreement (the Agreement) with the stockholders of KRBI wherein the Bank purchased all of KRBI's shares of stock, properties, resources and goodwill for a consideration amounting to P16.0 million.

Subsequently, on May 21, 2008, the Bank and KRBI entered into a Plan of Merger which became effective on March 3, 2010, the date of the approval by the SEC of the Articles of Merger under the Plan of Merger, which were previously approved by the BSP.

Under the merger, the entire resources and liabilities of KRBI were transferred to and absorbed by PBB. In applying the acquisition method, the financial statement items of PBB and KRBI were combined at the acquisition date, March 3, 2010.

The total fair values of the resources and liabilities of KRBI that were absorbed by PBB on March 3, 2010 were P25,252,181 and P59,130,574, respectively, with fair value of the net liabilities of KRBI amounting to P33,878,393. The total consideration for KRBI amounted to P49,878,393, representing the initial cash payment of P16,000,000 and the net liabilities of P33,878,393 assumed by the Bank. As such, the Bank recognized goodwill amounting to P49,878,393 representing the excess of purchase price over the fair value of KRBI's net assets.

14.03 Others

Deferred charges amounting to P17.6 million as of December 31, 2012 and 2011 pertain to prepaid final taxes from prior years that are fully provided with allowance since the Bank has assessed that these prepaid taxes are no longer recoverable.

Other properties held for sale (included under Miscellaneous) are presented net of accumulated depreciation of P3.2 million and P3.1 million for 2012 and 2011, respectively. Depreciation expense recognized in 2012, 2011 and 2010 amounted to P0.5 million, P1.6 million and P1.1 million, respectively, and are presented as part of Depreciation and Amortization in the statements of income. Additions to other properties held for sale in 2012 and 2011, as a result of foreclosure, amounted to P2.7 million and P6.0 million, respectively. The Bank recognized losses on foreclosure of other properties held for sale amounting to P3.5 million and gains on foreclosure of other properties held for sale amounting to P0.6 million in 2012 and 2011, respectively (nil in 2010). These are presented as part of Gain on foreclosure under Miscellaneous Income in 2012 and 2011 statements of income (see Notes 19.01).

In 2012, gains on sale of other properties held for sale amounted to P0.5 million and are presented as part of Gain on sale of properties - net in the 2012 statement of income (see Note 19.01). In 2011 and 2010, losses and gains on sale of other properties held for sale amounted to P0.6 million and P0.3 million, respectively. These are presented as net to Gain on sale of properties in 2011 and Loss on sale of properties in the 2010 statements of income (see Notes 19.01 and 19.02).

15. DEPOSIT LIABILITIES

The maturity profile of the Bank's deposit liabilities follows:

	2012	2011
Within one year	**P 26,127,182,946**	P20,935,723,448
Beyond one year	**321,703,792**	259,264,669
	P 26,448,886,738	P21,194,988,117

The classification of the Bank's deposit liabilities as to currency follows:

	2012	2011
Philippine pesos	**P 24,317,283,308**	P18,894,928,262
Foreign currencies	**2,131,603,430**	2,300,059,855
	P 26,448,886,738	P21,194,988,117

Interest rates on deposit liabilities range from 0.25% to 4.75% per annum in 2012, 0.25% to 5.0% per annum in 2011, and 0.25% to 4.5% in 2010.

As mentioned in Note 21, the Bank has deposit liabilities from DOSRI as of December 31, 2012 and 2011.

16. BILLS PAYABLE

This account consists of the following (including the related accrued interest):

	2012	2011
BSP	**P 711,165,218**	P 29,197,284
Other bank	**54,324,299**	92,285,315
	P 765,489,517	P 121,482,599

The maturity profile of bills payable follows:

	2012	2011
Within one year	**P 712,623,267**	P 37,102,210
Beyond one year	**52,866,250**	84,380,389
	P 765,489,517	P 121,482,599

Bills payable are denominated in Philippine pesos with annual interest rates ranging from 3.75% to 5.35%, 4.0% to 5.35%, and 4.0% to 4.75% in 2012, 2011 and 2010, respectively. Total interest expense incurred amounted to P25.9 million, P36.2 million and P48.6 million in 2012, 2011 and 2010, respectively, and these are presented as Interest Expense on Bills Payable in the statements of income. Bills payable are collateralized by certain loans from customers (see Note 11).

17. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Notes	2012	2011
Bills purchased		**P 731,630,900**	P 585,572,905
Outstanding acceptances		**444,449,958**	28,138,722
Accounts payable		**143,442,056**	90,733,003
Accrued expenses	28.01	**66,445,781**	85,486,530
Manager's checks		**62,760,689**	93,368,852
Post-employment benefit obligation	20.02	**17,808,558**	6,791,741
Others		**13,999,073**	5,520,580
		P 1,480,537,015	P 895,612,333

Bills purchased pertain to availments of the bills purchase line which are settled on the third day from the transaction date.

Outstanding acceptances pertain to the liabilities recognized by the Bank in its undertaking arising from letters of credit extended to its borrowers.

Accounts payable include amounts which the Bank owes to its suppliers and advance payments received from its customers.

Accrued expenses include accruals on employee benefits, utilities, janitorial and security services fees and others.

18. EQUITY

18.01 Capital Stock

Capital stock as of December 31 consists of:

	Number of Shares		Amount	
	2012	2011	**2012**	2011
Preferred shares – P10 par value in 2012 and P100 par value in 2011				
Authorized – 130,000,000 shares in 2012 and 13,000,000 shares in 2011				
Issued and subscribed				
Balance at beginning of year	**6,200,000**	6,200,000	**P 620,000,000**	P 620,000,000
Change in par value	**55,800,000**	-	**-**	-
Balance at end of year	**62,000,000**	6,200,000	**620,000,000**	620,000,000
Subscriptions receivable				
Balance at beginning of year			**(375,000,000)**	(375,000,000)
Collections during the year			**375,000,000**	-
Balance at end of year			**-**	(375,000,000)
			P 620,000,000	P 245,000,000
Common shares – P10 par value in 2012 and P100 par value in 2011				
Authorized – 870,000,000 shares in 2012 and 17,000,000 shares in 2011				
Issued and subscribed	**4,200,000**	4,200,000	**P 420,000,000**	P 420,000,000
Stock dividends	**20,000,000**	-	**2,000,000,000**	-
Change in par value	**217,800,000**	-	**-**	-
	242,000,000	4,200,000	**P2,420,000,000**	P 420,000,000

The Bank's preferred shares are nonvoting, nonconvertible, and are redeemable at the option of the Bank. These shares are entitled to non-cumulative dividend of 8% per annum. The dividends for preferred shares are declared upon the sole discretion of the Bank's BOD.

In a joint special meeting held on July 27, 2007, the Bank's BOD and stockholders approved the increase of the Bank's authorized capital stock from P1 billion, divided into seven million common shares and three million preferred shares to P3 billion, divided into 17 million common shares and 13 million preferred shares, both with par value of P100 per share. In connection with this, on June 19, 2009, the Bank received cash infusion amounting to P125 million from three subscribers representing 25% of the total subscription price of P500.0 million representing five million preferred shares to be taken out from the increase in authorized capital stock. The Bank's application for increase in authorized capital stock was approved by the SEC on September 17, 2009. As of December 31, 2011, the balance of subscriptions receivable that relates to the five million subscribed preferred shares amounted to P375.0 million (nil in 2012). The subscriptions receivable pertaining to the said preferred shares were collected from the subscribers in cash on September 6, 2012.

On July 16, 2012, the BOD and the stockholders representing at least two-thirds of the issued and outstanding capital stock approved the following amendments, among others, to the articles of incorporation of the Bank: (i) increase in the authorized capital stock to P10 billion divided into 870 million common shares with par value of P10 per share and 130 million preferred shares with par value of P10 per share from P3 billion authorized capital stock divided into 17 million common shares with par value of P100 per share and 13 million preferred shares with par value of P100 per share, and; (ii) change in the features of preferred shares from redeemable and non-convertible to redeemable and convertible to common shares at par value at the option of the Bank. On November 27, 2012, the BOD approved to revoke the July 16, 2012 approval to change the features of preferred shares to redeemable and convertible to common at par value. The amended articles of incorporation (excluding the change of the features of preferred shares to redeemable and convertible to common shares) were approved by the BSP and SEC on October 16, 2012 and November 16, 2012, respectively.

Also on July 16, 2012, the stockholders representing at least two-thirds of the issued and outstanding capital stock, approved the declaration of cash dividends amounting to P100.35 million for all issued and outstanding preferred shares and stock dividends totaling 20 million common shares amounting to P2 billion for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2011. The dividend distribution was approved by the BSP on October 17, 2012.

As of December 31, 2012, the Bank has eight stockholders owning 100 or more common shares each of the Bank's capital stock.

18.02 Appropriated Surplus

On August 16, 2003, the BOD approved the establishment of a sinking fund for the exclusive purpose of the redemption of redeemable preferred shares should the Bank opt to redeem the shares. As of December 31, 2012 and 2011, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

In 2012 and 2011, additional appropriations of surplus amounting to P0.6 million and P0.3 million (nil in 2010), respectively, pertain to the portion of the Bank's income from trust operations set-up in compliance with BSP regulations (see Note 25).

18.03 Restatement of Prior Years Financial Statements

Certain statement of comprehensive income accounts in 2011 and 2010 were restated to conform with the 2012 financial statements presentation. These pertain to the reclassification of Interest Income on Investment and Trading Securities to Interest Income on Loans and Other Receivables in the statements of income of both years.

The effect of the reclassification on certain statement of income accounts for the years ended December 31, 2011 and 2010 are presented below.

	Notes	As Previously Reported	Prior Period Reclassification	As Restated
December 31, 2011				
Reclassification of interest income on:				
Investment and trading securities	9, 10	P 615,377,020	(P 67,564,038)	P 547,812,982
Loans and other receivables	11	963,876,515	67,564,038	1,031,440,553
December 31, 2010				
Reclassification of interest income on:				
Investment and trading securities	9, 10	382,954,936	(151,474,926)	231,480,010
Loans and other receivables	11	930,705,018	151,474,926	1,082,179,944

The reclassification did not result in any adjustment to the 2011 and 2010 statements of financial position, comprehensive income, changes in equity and cash flows.

The reclassification has no effect on the earnings per share for the years ended December 31, 2011 and 2010.

19. MISCELLANEOUS INCOME AND EXPENSES

19.01 Miscellaneous Income

This account is composed of the following:

	Notes	**2012**	2011	2010
Gain on sale of properties – net	13, 14	**P 12,226,663**	P 9,199,762	P -
Trust fees	25	**5,959,343**	4,102,522	6,103,861
Gain on foreclosure - net	13, 14	**1,018,455**	32,028,960	9,096,006
Income from write-off of long outstanding payable		**-**	11,499,716	14,511,557
Reversal of various accruals		**-**	15,780,874	12,399,686
Foreign exchange gain – net		**-**	442,526	-
Consultancy fee		**52,353,685**	-	-
Others		**32,657,922**	29,473,098	16,699,070
		P104,216,068	P102,527,458	P 58,810,180

Consultancy fee pertains to a one-time fee received by the Bank for acting as a financial advisor for the settlement of a third party's obligation to another counterparty

Others include, among others, commitment, processing and handling fees in relation to services rendered by the Bank.

19.02 Miscellaneous Expenses

This account is composed of the following:

	2012	2011	2010
Litigation on asset acquired	**P 26,475,997**	P 27,891,414	P 4,773,524
Communication	**13,987,594**	11,683,582	10,969,537
Advertising and publicity	**12,076,687**	3,582,540	12,234,623
Foreign currency loss - net	**11,041,216**	-	975,553
Banking fees	**8,663,057**	6,752,348	8,884,096
Amortization of software licenses	**6,956,079**	5,824,407	497,957
Membership dues	**1,305,265**	1,272,487	1,621,750
Information technology	**626,073**	-	-
Donations and contributions	**202,503**	2,081,174	2,009,720
Loss on sale of properties – net	**-**	-	11,838,992
Others	**290,632,912**	233,478,678	173,712,922
	P371,967,383	P292,566,630	P227,518,674

Others include, among others, occupancy, transportation and travel, supplies, brokerage fees, commissions, appraisal and processing fees incurred by the Bank.

20. EMPLOYEE BENEFITS

20.01 Salaries and Other Employee Benefits

Expenses recognized for salaries and other employee benefits are broken down below.

	2012	2011	2010
Salaries and wages	**P185,125,618**	P145,979,695	P120,531,440
Bonuses	**59,666,530**	46,904,563	38,341,736
Post-employment defined benefit plan	**12,262,810**	6,701,781	6,906,959
Social security costs	**10,722,110**	8,937,407	7,667,071
Short-term medical benefits	**246,589**	607,817	301,675
Other short-term benefits	**54,501,366**	46,249,395	38,037,125
	P322,525,023	P255,380,658	P211,786,006

20.02 Post-employment Benefit

The Bank maintains a partially funded, tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The amounts of post-employment benefit obligation recognized and included as part of Accrued Expenses and Other Liabilities account in the statements of financial position are determined as follows (see Note 17):

	2012	2011
Present value of the DBO	**P 89,870,700**	P 65,437,303
Fair value of plan assets	**(49,629,617)**	(44,927,195)
Deficiency of plan assets	**40,241,083**	20,510,108
Unrecognized actuarial losses	**(22,432,525)**	(13,718,367)
	P 17,808,558	P 6,791,741

The movements in the present value of the DBO recognized in the books follow:

	2012	2011
Balance at beginning of year	**P 65,437,303**	P 37,394,689
Current service and interest cost	**14,745,430**	9,522,320
Benefits paid	**(506,680)**	(4,456,465)
Actuarial losses	**10,194,647**	22,976,759
Balance at end of year	**P 89,870,700**	P 65,437,303

As at December 31, the composition of plan assets is presented below.

	2012	2011
Due from BSP	**P 4,010,443**	P -
Deposits in own bank	**6,857,113**	6,317,681
AFS securities – government securities	**13,136,519**	38,561,168
HTM investments - government securities	**24,177,592**	-
Others	**1,447,950**	48,346
	P 49,629,617	P 44,927,195

The movements in the fair value of plan assets are presented below.

	2012	2011
Balance at beginning of year	**P 44,927,195**	P 34,893,924
Expected return on plan assets	**2,745,524**	2,791,514
Actuarial gains	**1,217,585**	4,755,263
Contributions paid into the plan	**1,245,993**	6,942,959
Benefits paid	**(506,680)**	(4,456,465)
Balance at end of year	**P 49,629,617**	P 44,927,195

The amounts of post-employment benefits recognized in the statements of income follow:

	2012	2011	2010
Current service cost	**P 10,531,180**	P 6,584,400	P 5,609,263
Interest cost	**4,214,250**	2,937,920	2,330,958
Expected return on plan assets	**(2,745,524)**	(2,791,514)	(954,040)
Net actuarial losses (gains) recognized during the year	**262,904**	(29,025)	(79,222)
	P 12,262,810	P 6,701,781	P 6,906,959

The movements in the balance of post-employment benefit obligation are as follows:

	2012	2011
Balance at beginning of year	**P 6,791,741**	P 7,032,919
Expense recognized	**12,262,810**	6,701,781
Contributions paid into the plan	**(1,245,993)**	(6,942,959)
Balance at end of year	**P 17,808,558**	P 6,791,741

The Bank plans to contribute P1,133,819 to the post-employment benefit plan in 2013.

In determining the amounts of post-employment benefit obligation, the following actuarial assumptions were used:

	2012	2011
Discount rates	**5.89%**	6.44%
Expected rate of return on plan assets	**8.00%**	8.00%
Expected rate of salary increases	**5.00%**	5.00%

Presented below is the historical information related to the present value of the DBO, fair value of plan assets and deficit in the plan (in thousands) arising on plan assets and liabilities.

	2012	2011	2010	2009	2008
Present value of the obligation	**P 89,871**	P 65,437	P 37,395	P 29,137	P 28,060
Fair value of the plan assets	**49,630**	44,927	34,894	11,926	11,775
Deficit in the plan	**P 40,241**	P 20,510	P 2,501	P 17,211	P 16,285

21. RELATED PARTY TRANSACTIONS

The Bank's related parties include entities under common ownership, key management and others as described below.

The following are the Bank's transactions with related parties:

Related Party Category	Notes	2012 Amount of Transaction	2012 Oustanding Balance	2011 Amount of Transaction	2011 Oustanding Balance
Entities under common ownership					
Deposit liabilities	21.01	**P2,516,345,619**	**P 5,661,977,74**	P 458,814,915	P3,145,632,145
Loans	21.02	**547,053,786**	**782,053,786**	235,523,669	235,523,669
Interest income on loans	21.02	**11,920,599**	**2,046,583**	1,768,926	1,613,931
Retirement fund	21.03	**739,313**	**17,808,558**	2,486,494	6,791,741
Key management and others					
Compensation	21.04	**67,106,365**	**-**	51,211,281	-
Loans	21.02	**5,421,877**	**18,787,338**	49,777,378	24,209,215
Interest income on loans	21.02	**1,327,033**	**92,608**	1,312,333	81,968
Sale of investment properties	21.02	**300,000**	**-**	250,000	-

21.01 DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2012 and 2011.

21.02 DOSRI Loans

a. The Bank has loan transactions with its officers and employees. The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. As of December 31, 2012 and 2011, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

   Relative to the DOSRI loans, the following additional information is also presented:

	2012	2011
Total outstanding DOSRI loans	**P 800,841,124**	P 259,732,884
% to total loan portfolio	**4.1%**	1.2%
% of unsecured DOSRI loans to total DOSRI loans	**1.0%**	3.4%

   The Bank has no past due DOSRI loans as of December 31, 2012 and 2011. As of December 31, 2012, the Bank has an approved line of credit to certain related parties totaling P218.0 million of which P207.8 million was used to guarantee the obligation of the respective related parties to other creditors up to the extent of the unused line of credit.

The Bank has no unsecured loan that is subject to 30% aggregate DOSRI ceiling. Unsecured DOSRI loans to the officers of the Bank, which are subject to the 5% ceiling for loans under fringe benefits program under MORB, amounted to P18.1 million and P24.2 million, as of December 31, 2012 and 2011, respectively.

b. The BOD approved the sale of investment properties on May 21, 2012 for an amount equal to its carrying value of P0.3 million, and on June 2, 2011 with a carrying value of P0.4 million for P0.3 million. There are no outstanding receivables from these DOSRI sale transactions as of December 31, 2012 and 2011.

21.03 Transactions with Retirement Fund

The Bank's retirement fund has no transactions direct and indirect with the Bank or its employees as of December 31, 2012, except for the contributions and benefits paid out of the plan to the Bank's employees as disclosed in Note 20.02.

21.04 Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel are summarized below.

	2012	2011	2010
Salaries and wages	**P 45,629,360**	P 35,588,847	P 16,335,245
Bonuses	**11,610,623**	8,871,712	4,060,107
Other short-term benefits	**6,292,113**	4,855,279	383,132
Post-employment defined benefit	**2,551,469**	1,343,903	749,675
Social security costs	**1,022,800**	551,540	1,458,910
	P 67,106,365	P 51,211,281	P 22,987,069

22. TAXES

The components of tax expense for the years ended December 31, 2012, 2011 and 2010 follow:

	2012	2011	2010
Current tax expense:			
Final tax on income at 20%, 10% and 7.5%	**P 73,261,960**	P100,614,810	56,559,818
Minimum corporate income tax (MCIT) at 2%	**15,172,799**	6,374,842	11,394,468
Regular corporate income tax (RCIT) at 30%	**856,207**	5,467,061	999,877
Balance Carried Forward	**P 89,290,966**	P112,456,713	P 68,954,163

	2012	2011	2010
Balance Brought Forward	**P 89,290,966**	P112,456,713	P 68,954,163
Deferred tax income relating to origination and reversal of temporary differences	**(32,859,173)**	(12,895,338)	(66,209,946)
Tax expense reported in the statements of income	**P 56,431,793**	P 99,561,375	P 2,744,217

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of income follows:

	2012	2011	2010
Tax on pretax profit at 30%	**P 213,215,144**	P 253,960,649	P 205,806,388
Adjustment for income subjected to lower tax rates	**(23,283,941)**	(62,119,270)	(49,762,803)
Tax effects of:			
Non-taxable income	**(227,439,423)**	(208,034,794)	(194,432,063)
Non-deductible expenses	**93,940,013**	115,754,790	41,132,695
Tax expense reported in the statements of income	**P 56,431,793**	P 99,561,375	P 2,744,217

As of December 31, 2012 and 2011, the Bank has unrecognized deferred tax assets amounting to P11.9 million which pertain to certain allowance for impairment losses absorbed from KRBI upon merger amounting to P39.6 million.

The Bank is subject to MCIT computed at 2% of gross income as defined under the tax regulations or RCIT, whichever is higher. The breakdown of the Bank's MCIT which can be applied against RCIT follows:

Year	**Original Amount**	**Applied in Current Year**	**Remaining Balance**	**Valid Until**
2012	P 15,172,799	P -	P 15,172,799	2015
2011	6,374,842	-	6,374,842	2014
2010	11,394,468	-	11,394,468	2013
	P 32,942,109	P -	P 32,942,109	

For the years ended December 31, 2012 and 2011, the Bank opted to claim itemized deductions.

The net deferred tax assets as of December 31, 2012 and 2011 (included as part of Other Resources account – see Note 14) relate to the following:

	Statements of Financial Position		Statements of Income	
	2012	2011	**2012**	2011
Deferred tax assets:				
Allowance for impairment	**P 169,910,136**	P 148,184,823	**(P 21,725,313)**	(P 899,379)
Excess MCIT over RCIT	**32,942,109**	17,769,310	**(15,172,799)**	(6,374,842)
Accumulated depreciation of investment properties and other properties held for sale	**11,109,045**	9,206,233	**(1,902,812)**	(1,749,092)
Post-employment benefit obligation	**5,342,567**	2,037,522	**(3,305,045)**	72,354
Unamortized past service cost	**3,558,456**	4,065,270	**506,814**	399,246
Accrued bonus and leave conversion	**2,481,373**	13,078,830	**10,597,457**	(13,078,830)
Provision for contingencies	**-**	-	**-**	1,029,510
Deferred tax liabilities:				
Gain on initial exchange of investment properties	**(29,702,243)**	(34,735,279)	**(5,033,035)**	7,705,695
Excess payment over accrual of expenses	**(3,175,560)**	-	**3,175,560**	-
Net Deferred Tax Assets	**P 192,465,883**	P 159,606,709		
Deferred Tax Income			**(P 32,859,173)**	(P 12,895,338)

23. EVENTS AFTER THE END OF THE REPORTING PERIOD

The PSE and the Philippine SEC approved the Bank's application for the listing of its common stock on January 9, 2013 and on February 5, 2013, respectively. The approval covered the initial public offering (IPO) of 101,333,400 million unissued common shares of the Bank at P31.50 offer price per share and the listing of those shares on PSE's main board on February 19, 2013.

24. COMMITMENTS AND CONTINGENT LIABILITIES

The following are the significant commitments and contingencies involving the Bank:

a. The Bank leases the premises occupied by its branch offices for periods ranging from 5 to 20 years, renewable upon mutual agreement between the Bank and the lessors. Rent expense amounted to P60.1 million, P47.0 million and P40.7 million in 2012, 2011 and 2010, respectively, and are included as part of Others under Miscellaneous Expenses in the statements of income.

As of December 31, 2012 and 2011, future minimum rental payments required by the lease contracts are as follows:

	2012	2011	2010
Within one year	**P 54,608,414**	P 40,311,242	P 37,069,702
After one year but not more than five years	**133,513,317**	128,913,938	105,385,295
More than five years	**26,165,256**	24,880,204	31,279,490
	P 214,286,987	P 194,105,384	P 173,734,487

b. In the normal course of the Bank's operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the financial statements.

c. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

The following is a summary of the Bank's commitments and contingent accounts as of December 31:

	2012	2011
Investment management accounts	**P 1,462,371,014**	P 1,841,713,573
Outstanding letters of credit	**364,819,500**	968,787,354
Trust and other fiduciary accounts	**102,541,928**	80,231,813
Unit investment trust fund	**14,851,696**	11,551,210
Outward bills for collection	**5,059,810**	24,905,629
Late deposits/payments received	**2,188,903**	9,853,633
Items held for safekeeping	**19,367**	20,805
Items held as collateral	**6,627**	5,816
Other contingent accounts	**394,551,132**	190,415,055
	P 2,346,409,977	P 3,127,484,888

As of December 31, 2012, the Bank's management believes that losses, if any, from the above commitments and contingencies will not have a material effect on the Bank's financial statements.

25. TRUST OPERATIONS

The following securities and other properties held by the Bank in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not properties of the Bank:

	2012	2011
Due from BSP	**P 192,000,000**	P 704,405,700
Due from banks	**29,425,392**	43,711,321
Loans and other receivables	**541,888,348**	559,205,790
Investment securities	**816,450,898**	626,173,785
	P 1,579,764,638	P 1,933,496,596

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

(a) Government bonds owned by the Bank with face value of P26.3 million as of December 31, 2012 and 2011, respectively, are deposited with the BSP (see Note 10); and,

(b) 10% of the trust income is transferred to appropriated surplus. This transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. As of December 31, 2012 and 2011, the reserve for trust functions amounted to P0.6 million and P0.3 million, respectively, and is presented as Appropriated Surplus in the Bank's statements of changes in equity.

Income from trust operations, shown as part of Miscellaneous Income, amounted to P6.0 million, P4.1 million and P6.1 million for the years ended December 31, 2012, 2011 and 2010, respectively, in the statements of income (see Note 19.01).

26. SELECTED FINANCIAL PERFORMANCE INDICATORS

a. The following are some of the financial performance indicators of the Bank:

	2012	2011	2010
Return on average capital			
$\frac{\text{Net profit}}{\text{Average total capital accounts}}$	**16.2%**	24.3%	32.7%
Return on average resources			
$\frac{\text{Net profit}}{\text{Average total resources}}$	**2.2%**	3.1%	3.5%

	2012	2011	2010
Net interest margin			
Net interest income / Average interest earning resources	**3.9%**	4.6%	4.8%
Capital to risk assets ratio			
Total capital / Risk resources	**18.86%**	26.5%	22.8%
Liquidity ratio			
Current assets / Current liabilities	**1.2**	1.1	0.9
Debt-to-equity ratio			
Liabilities / Equity	**6.5**	6.0	8.0
Asset-to-equity ratio			
Asset / Equity	**7.5**	7.0	9.0
Interest rate coverage ratio			
Earnings before interests and taxes / Interest expense	**2.1**	2.5	2.5

b. Secured Liabilities and Resources Pledged as Security

As of December 31, 2012 and 2011, bills payable are the only secured liabilities (see Note 16). Additionally, certain AFS securities as of December 31, 2011 (nil in 2012) were assigned to another bank for the faithful observance of the Bank's obligation in its undertaking arising from letters of credit extended to its borrowers (see Note 10).

27. EARNINGS PER SHARE

27.01 Basic Earnings Per Share

Basic earnings per share are computed as follows:

	2012	2011	2010
Net profit	**P 654,285,353**	P 746,974,122	P 683,277,077
Dividends on preferred shares	**(100,350,000)**	-	-
Net profit attributable to common shareholders	**553,935,353**	746,974,122	683,277,077
Divided by the weighted average number of outstanding common shares	**242,000,000**	242,000,000	242,000,000
Basic earnings per share	**P 2.29**	P 3.09	P 2.82

27.02 Diluted Earnings Per Share

Diluted earnings per share are computed as follows:

	2012	2011	2010
Net profit	**P 654,285,353**	P 746,974,122	P 683,277,077
Dividends on preferred shares	**(100,350,000)**	-	-
Net profit attributable to common shareholders	**553,935,353**	746,974,122	683,277
Divided by the weighted average number of outstanding common shares	**242,000,000**	242,000,000	242,000,000
Diluted earnings per share	**P 2.29**	P 3.09	P 2.82

The 2011 and 2010 earnings per share of the Bank were restated to account for the stock dividends declared and change in par value in 2012. These are considered as a bonus issue and stock split, respectively, under PAS 33, *Earnings per Share,* which require stock dividends issued and change in par value to be recognized as if it occurred at the beginning of 2010, the earliest period presented for earnings per share computation.

28. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under FRSP for banks.

28.01 Requirements Under Revenue Regulation (RR) 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year under RR 15-2010 follows:

(a) Gross Receipts Tax (GRT)

In lieu of the value-added tax, the Bank is subject to the GRT, pursuant to Sections 121 and 122 of the Tax Code which is imposed on banks, non-banks financial intermediaries and finance companies.

In 2012, the Bank reported total GRT amounting to P128,824,679 shown under Taxes and Licenses account [see Note 28.01 (c)]. GRT paid during the year amounted to P115,892,235, exclusive of December 2011 GRT paid during 2012. Total GRT payable as of December 31, 2012 amounted to P12,932,444, included as part of Accrued expenses under Accrued Expenses and Other Liabilities account in the 2012 statement of financial position (see Note 17).

GRT is levied on the Bank's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income

(b) Documentary Stamp Tax (DST)

The Bank is enrolled under the Electronic Documentary Stamp Tax (e-DST) System starting July 2010. In 2012, DST remittance thru e-DST amounted to P138,543,031, while DST on deposits for remittance amounts to P2,411,374. In general, the Bank's DST transactions arise from the execution of debt instruments, lease contracts and deposit liabilities.

DST on loan documents and letters of credit in 2012 amounting to P84,381,576 were charged to borrowers and these were properly remitted by the Bank.

(c) *Taxes and Licenses*

The details of Taxes and Licenses account for the year ended December 31, 2012 follow:

	Note	
Gross receipts tax	28.01 (a)	P 128,824,679
Documentary stamp tax		56,572,829
Business tax		5,803,689
Real property tax		531,549
Miscellaneous		31,405,127
		P 223,137,873

Taxes and licenses allocated to tax exempt income and income subject to final tax and special rate totaling P36,269,137 were excluded from the itemized deductions for purposes of income tax computation [see Note 28.02(d)].

(d) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2012 are shown below.

Final	P 125,903,678
Compensation and benefits	37,091,374
Expanded	20,470,577
	P 183,465,629

(e) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2012, the Bank did not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside the BIR in any of the open years.

(f) *Other Required Tax Information*

The Bank did not have any transaction in 2012 which is subject to excise tax, customs duties and tariff fees.

28.02 Requirements Under RR 19-2011

RR 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The Bank's Regular Banking Unit (RBU) is taxed separately from FCDU. The amounts of taxable revenues and income, and deductible costs and expenses of RBU of the Bank are presented below. The amounts of taxable revenues and income, and deductible costs and expenses of the FCDU are presented in the notes to the separate financial statements of the FCDU for which corresponding income tax return is separately filed with the BIR.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2012 statement of income, which are based on FRSP for banks.

(a) Taxable Revenues

The Bank's taxable revenues for the year ended December 31, 2012 at the regular tax rate pertain to interest income amounting to P1,287,513,534.

(b) Deductible Costs of Services

Deductible costs of services for the year ended December 31, 2012 at the regular tax rate comprise the following:

Interest expense	P 485,781,068
Salaries and wages	159,259,949
Insurance	40,356,821
Supervision/examination fees	7,288,880
	P 692,686,718

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2012 which are subject to regular tax rate are shown below.

Bank commissions and service charges	P 65,389,444
Trading gains	77,987
Others	120,990,926
	P 186,458,357

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2012 subject to regular tax rate follow:

Taxes and licenses	P 176,454,415
Management and other professional fees	129,432,615
Employee benefits	114,581,910
Depreciation and amortization	53,733,811
Representation and entertainment	15,436,586
Insurance	12,158,710
Advertising and publicity	8,860,448
Miscellaneous	269,116,997
	P 779,775,492