NOTICE TO THE PUBLIC

The Prospectus is being displayed in the website to make the prospectus accessible to more investors. The PSE assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in the Prospectus. Furthermore, the Stock Exchange makes no representation as to the completeness of the Prospectus and disclaims any liability whatsoever for any loss arising from or in reliance in whole or in part on the contents of the Prospectus.

Final Prospectus dated February 4, 2013

PHILIPPINE BUSINESS BANK, a Savings Bank

Primary Offer of 101,333,400 common shares at an Offer Price of Php31.50 per common share
to be listed and traded on the First Board of The Philippine Stock Exchange, Inc.

Asian Alliance Investment Corporation
Financial Advisor & Issue Manager

First Metro Investment Corporation

SB Capital Investment Corporation

Joint Lead Underwriters and Bookrunners

Philippine Commercial Capital, Inc.

Co-Lead Underwriter

Abacus Capital and Investment Corporation
China Banking Corporation
Unicapital, Inc.
Vicsal Investment, Inc.

Participating Underwriters

This Prospectus is dated February 4, 2013

PHILIPPINE BUSINESS BANK, a Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City
Tel: (632) 363-3333
Fax: (632) 364-9171
Website: www.pbb.com.ph

This Prospectus relates to the offer and sale of 101,333,400 common shares (the "Offer"), with a par value of Php10.00 per share (the "Shares" or "Offer Shares"), of Philippine Business Bank, a Savings Bank, a corporation organized under Philippine law ("PBB" or the "Bank") in the First Board of The Philippine Stock Exchange, Inc..

The Offer Shares will be offered at a price of Php31.50 per Share (the "Offer Price"). The determination of the Offer Price is further discussed on page 49 of this Prospectus and is based on a book-building process and as well as discussions between PBB and First Metro Investment Corporation ("FMIC") and SB Capital Investment Corporation ("SB Capital"), collectively, the "Joint Lead Underwriters and Bookrunners". The Offer Shares represent 29.51 per cent of the outstanding Common Shares of the Bank after the Offer and will be issued out of the Bank's authorized and unissued capital stock. Prior to the Offer, the Bank has a total of 242,000,000 issued and outstanding common stock. A total of 343,333,400 Shares will be outstanding after the Offer.

The Bank has an authorized capital stock ("ACS") of Php3 billion divided into 17,000,000 common shares and 13,000,000 preferred shares, both classes of shares with a par value of Php100.00 each. On August 16, 2012, the Bank filed an application with the Securities and Exchange Commission ("SEC") for (a) a change in the par value of its common and preferred shares from Php100 per share respectively to Php10.00 per share; and (b) an increase in its ACS from Php3 billion to Php10 billion divided into 870,000,000 common shares with a par value of Php10 per share and 130,000,000 preferred shares with a par value of Php10 per share.

The SEC approved this application, as well as amendments in the Company's Articles of Incorporation, on November 16, 2012. Please refer to the section "Description of the Securities" on page 97 of this Prospectus for more details on the Bank's capital stock and approved amendments to its Articles of Incorporation and bylaws.

The total proceeds to be raised by PBB from the sale of the Offer Shares are estimated to be Php3.19 billion. The net proceeds to be raised by PBB from the sale of the Offer Shares (after deduction of estimated fees and expenses) are estimated to be Php3.01 billion. PBB intends to use the net proceeds from the Offer for the payment of bank branch licenses, the expansion of the branch network and implementation of IT projects as well as for asset acquisition. For a more detailed discussion on PBB's proposed use of proceeds, see "Use of Proceeds" on page 43 of this Prospectus.

The Joint Lead Underwriters and Bookrunners will receive an underwriting fee from PBB based on a percentage of the gross proceeds from the sale of the Offer Shares. This fee is inclusive of the amounts to be paid to other participating underwriters and selling agents, where applicable. For a more detailed discussion on the fees to be received by the Joint Lead Underwriters and Bookrunners, see "Plan of Distribution" on page 46 of this Prospectus.

Each holder of the Shares will be entitled to such dividends as may be declared by PBB's Board of Directors (the "Board"), provided that any stock dividend declaration requires the approval of shareholders holding at least two-thirds of PBB's total outstanding capital stock, provided further that the Bangko Sentral ng Pilipinas ("BSP") approved the declared dividends. The Corporation Code of the Philippines, Batas Pambansa Blg. 68 (the "Philippine Corporation Code"), has defined "outstanding capital stock" as the total shares of stock issued, whether paid in full or not, except treasury shares. As of the date of this Prospectus, the Bank has not adopted a specific dividend policy which defines a minimum percentage of net earnings to be distributed to its common shareholders. Dividends may be declared only from PBB's unrestricted retained earnings. Please see a more detailed discussion of PBB's dividend policy under "Dividends and Dividend Policy" on page 48 of this Prospectus.

The Offer Shares may be owned by any person or entity subject to the restriction by law. R.A. No. 7906 or the Thrift Banks Act of 1995, aggregate foreign ownership in the Bank cannot exceed the maximum of 60 per cent of the issued and outstanding voting stock. Accordingly, the Bank will not allow the issuance of shares or record the transfer of shares to persons other than Philippine nationals if such issuance or transfer shall exceed the abovementioned foreign ownership limit.

Of the total Offer Shares of 101,333,400 Shares, 20,269,200 are being offered to all of the trading participants of the Philippine Stock Exchange ("PSE") (the "PSE Trading Participants"), and up to 10,133,400 are being offered to local small investors (the "LSIs") under the Local Small Investors Program. The remaining 70,930,800 shares shall be distributed by the Joint Lead Underwriters and Bookrunners to Qualified Institutional Buyers ("QIBs") and to the general public. Offer Shares not taken up by the PSE Trading Participants, the QIBs, and the general public shall be purchased by the Joint Lead Underwriters and Bookrunners. In any case, the amount of Offer Shares to be made available to the PSE Trading Participants and LSIs will be equivalent to 20 per cent and 10 per cent, respectively, of the total Offer Shares. For more detailed discussion of the underwriting commitment of the Joint Lead Underwriters and Bookrunners, see "Plan of Distribution" on page 46 of the Prospectus.

An application to list the Bank's 242,000,000 issued and outstanding common stock and 101,333,400 Offer Shares was approved on January 9, 2013. Such an approval for listing is permissive only and does not constitute a recommendation or endorsement by the PSE or the SEC of the Shares. On October 22, 2012, the Bank filed a Registration Statement with the SEC in accordance with the Securities Regulation Code for the registration of a total of 343,333,400 common shares, inclusive of the Offer Shares. A pre-effective clearance was issued by the SEC on November 8, 2012.

The information contained in this Prospectus relating to PBB and its operations has been supplied by the Bank, unless otherwise stated herein. To the best of its knowledge and belief, the Bank, which has taken reasonable care to ensure that such is the case, confirms that the information contained in this Prospectus relating to it and its operations is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect and that the Bank hereby accepts full and sole responsibility for the accuracy of the information contained in this Prospectus with respect to the same.

Both the Issue Manager and the Joint Lead Underwriters and Bookrunners confirm that they have exercised the required due diligence in verifying that all material information in this Prospectus is true and that no material information was omitted, which was necessary in order to make the statements contained in said documents not misleading. The Issue Manager, the Joint Lead Underwriters and Bookrunners and the participating underwriters assume no liability for any information supplied by the Bank in relation to this Prospectus.

Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of PBB since such date.

Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Shares. These risks include:

- risks related to PBB;
- risks relating to the Philippines;
- risks associated with the Offer and the Shares; and
- risks relating to certain statistical information in this Prospectus.

See the section entitled "Risk Factors" beginning on page 29 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Offer Shares.

The Bank's financial statements are reported in Pesos and are prepared based on its accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("PFRS") issued by the Financial Reporting Standard Council of the Philippines. PFRS include statements named PFRS and Philippine Accounting Standards, and Philippines Interpretations from International Financial Reporting Interpretations Committee.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

PBB's fiscal year begins on January 1 and ends on December 31 of the year. Punongbayan and Araullo, PBB's external auditor, has audited and rendered an unqualified audit reports on the Bank's financial statements as of and for the years ended December 31, 2009, 2010 and 2011 and as of and for the nine-month period ending September 30, 2011 and 2012.

Market data and certain industry information used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified and neither the Bank, the Issue Manager, nor the Joint Lead Underwriters and Bookrunners make any representation as to the accuracy and completeness of such information.

This Prospectus includes forward-looking statements. PBB has based these forward-looking statements largely on its assumptions, current expectations and projections about future events and financial trends affecting its business and operations. Words including, but not limited to "believes", "may", "will", "estimates", "continues", "anticipates", "intends" "expects" and similar words are intended to identify forward-looking statements. In light of the risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances in this Prospectus might not occur. Important factors that could cause some or all of the assumptions not to occur or result in performance or achievements materially different from those in to differ materially from those in the forward-looking statements include, among other things:

- The Bank's ability to implements its strategies;
- Competition in the Philippine banking industry;
- The Bank's ability to anticipate and respond to economic and market trends, including changes in the Philippine, Asian or global economies;
- Changes in interest rates, inflation rates and foreign exchange rates of the Peso against other currencies; and,
- Changes in the laws, rules and regulations, including tax laws and licensing requirements, in the Philippines.

An application for listing of the issued and outstanding Common Shares (including the Offer Shares) has been filed with the PSE and has been approved on January 9, 2013. The PSE assumes no responsibility for the correctness of any of the statements made or opinions expressed in this Prospectus. The PSE makes no representation as to the completeness and expressly disclaims any liability whatsoever for any loss arising from or in reliance upon the whole or any part of the contents of this Prospectus. The listing of the Common Shares is subject to the approval of the Board of Directors of the PSE. Such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Common Shares by the PSE.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT.

The Offer Shares are offered subject to the receipt and acceptance of any order by PBB and subject to PBB's right to reject any order in whole or in part. It is expected that the Offer Shares will be delivered in book-entry form against payment thereof to the Philippine Depository and Trust Corporation (the "PDTC") on or about February 15, 2013.

PHILIPPINE BUSINESS BANK
By:

Rolando R. Avante
President and CEO

Alice P. Rodil
Senior Vice President – Controller

SUBSCRIBED AND SWORN to before me this 04 day of FEB 2013 at Makati City, affiants exhibiting to me their ~~TIN~~ No. DL-N11-81-000381 and SSS-03-5192187-0

PAUL ANGELO D. OBMINA
Appointment No. M-496
NOTARY PUBLIC
Notary Public for Makati City
Until December 31, 2013
18th 19th & 17th Floor, Liberty Center
104 H.V. dela Costa Street
Salcedo Village, Makati City
Roll of Attorneys No.60371
PTR 3676667/Makati City/01-07-2013
IBP 908426/Makati City /01-02-2013

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Attachments and Exhibits

Exhibit A: Summary Table of PBB Lease Agreements

Attachments:
Audited Financial Statements for the nine-month period ending September 30, 2012
Audited Financial Statements for the years ending December 31, 2011 and 2010
Audited Financial Statements for the year ending December 31, 2010 and 2009

GLOSSARY OF TERMS

ACS	Authorized capital stock
AFS	Available-for-sale
ALCO	Assets and Liabilities Committee of the Bank
AMLC	Anti-Money Laundering Council
Applicant	A person, whether natural or juridical, who seeks to subscribe for the Offer Shares.
Application	An application to subscribe for Offer shares pursuant to the Offer.
Bank or PBB	Philippine Business Bank
Banking day	A day other than Saturday and Sunday on which banks are open for business in Metro Manila
BIR	Philippine Bureau of Internal Revenue
Board	Boards of Directors
BOC	Philippine Bureau of Customs
BOI	Philippine Board of Investments
BRR	Borrower Risk Rating
BSP	Bangko Sentral ng Pilipinas or the Philippine Central Bank
CAGR	Compound annual growth rate
CAMANAVA	Area composed of Caloocan, Malabon, Navotas and Valenzuela
CAR	Capital Adequacy Ratio or the ratio of capital to risk weighted assets
Common Shares	The Bank's shares of common stock with a par value of Php10.00 per share
CTB	Chamber of Thrift Banks
DOSRI	Directors, officers, stockholders and their related interest
ESOP	Employee Stock Option Plan
EaR	Earnings at Risk
FCDU	Foreign Currency Deposit Unit
FVTPL	Fair value through profit or loss

General Banking Law	The Philippine General Banking Law of 2000, RA 8791
HTM investments	Held-to-maturity investments with fixed or determinable payments and a fixed date of maturity
IT	Information technology
LAM	Loan Approval Memos
LSI	Local small investor under the Local Small Investors Program of the PSE
Manual or MORB	BSP Manual of Regulations for Banks
MB	BSP Monetary Board
MCO	Maximum Cumulative Outflow
Metro Manila	The metropolitan area comprising the cities of Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Pateros, Quezon, Valenzuela, Taguig and San Juan, which together comprise the “National Capital Region” and is commonly referred to as Metro Manila.
New Central Bank Act	The Philippine New Central Bank Act, RA 7653
NPAs	Non-Performing Assets
NPLs	Non-Performing Loans
NPL Ratio	Ratio of Non-Performing Loans to Total Loan Portfolio
PAS	Philippine Accounting Standards
PCD	Philippine Central Depository Inc.
PCD Nominee	PCD Nominee Corporation, a corporation wholly owned by the PDTC.
PDEx	Philippine Dealing and Exchange corporation
PDS	The Philippine Dealing System
PDTC	The Philippine Depository and Trust Corporation, the central securities depositary of, among others, securities listed and traded on the PSE.
Pesos or Php	The lawful currency of the Philippines
PFRS	Philippine Financial Reporting Standards
Philippine Corporation Code	Corporation Code of the Philippines, Batas Pambansa Blg. 68
PSA	Philippine Standards on Auditing

PSE	The Philippine Stock Exchange, Inc.
PSRE	Philippine Standards on Review Engagements
RA	Republic Act
RCIT	Regular Corporate Income Tax
Restricted Area	As a general rule, banks shall be allowed to establish branches anywhere in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig, Quezon and San Juan. BSP Circular 728 outlines the guidelines on the establishment of additional branches in the Restricted Area.
ROPA	Real and Other Properties Acquired.
Savings Bank	A corporation organized primarily for the purpose of accumulating the small savings of depositors and investing these in loans, bonds or any form of security as provided by law.
SBL	Single Borrower's Limit
SEC	The Philippine Securities and Exchange Commission.
SES	Supervision and Examination Sector of the Bangko Sentral ng Pilipinas, The Philippine Central Bank.
Shares	The common shares of PBB, each at a par value Php10.00
SME	Small and Medium Enterprises defined as 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.
SPURRA	Securities purchased under reverse repurchase agreements
SRC	Securities Regulation Code of the Philippines (RA 8799) and its implementing rules, as amended.

Thrift Bank	As defined in Republic Act 7906, may be a savings and mortgage bank, a stock savings and loan association or private development banks and may be organized for the following purposes: 1. To accumulate the savings of depositors and investing them, together with capital loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal or household finance, whether secured or unsecured, or in financing for homebuilding and home development; in readily marketable and debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions; and in such other investments and loans which the Monetary Board may determine as necessary in the furtherance of national economic objectives; 2. Provide short-term working capital, medium- and long-term financing, to businesses engaged in agriculture, services, industry and housing; and 3. Provide diversified financial and allied services for its chosen market and constituencies especially for small and medium enterprises and individuals.
Trading day	Refers to any day when the Exchange is open for transaction and trading is conducted
Universal Bank	A bank that holds, in addition to the general powers incident to corporations, the authority to exercise (i) the powers of a commercial bank; (ii) the powers of an investment house, and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied enterprise. A publicly listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100% of the equity in a non-financial allied enterprise.
VAR	Value-At-Risk

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information and financial statements including the notes thereto, appearing elsewhere in this Prospectus. Prospective investors are advised to review closely the sections entitled "Risk Factors" for a description of certain factors that may be relevant to the Offer shares. Capitalized Terms not defined in this Executive Summary are defined in the Glossary of Terms.

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.

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.

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 72 branches as of September 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.

The Bank has shown a remarkable rate of growth over the past three (3) years, from 2009 to 2011. Over this period, total resources grew by 24.43 per cent from Php16.72 billion as of December 2009 to Php25.88 billion as of the end of 2011. The growth in PBB's resources was due primarily to the increase in its loans and receivables arising from the expansion of the Bank's branch network. As of September 30, 2012, the Bank had total resources of Php29.66 billion.

Over the period 2009 to 2011, PBB loans and discounts and its deposits grew at a compounded annual growth rate of 19.43 per cent and 29.27 per cent, respectively. Loans (net of unearned discount) increased from Php9.52 billion as of December 2009 to Php13.56 billion as of year-end 2011 while deposit liabilities increased from Php12.68 billion as of December 2009 to Php21.19 billion as of the end of 2011.

In comparison, over the same period, aggregate loans granted by the members of the CTB decreased by an average of 3.9 per cent while aggregate deposit accounts increased by an average of 1.1 per cent over the same period.

PBB is principally owned by the family of Ambassador Alfredo M. Yao, with direct and indirect ownership equivalent to approximately 90 per cent of the issued and outstanding Shares prior to the Offer. Aside from his interest in PBB, Ambassador Yao is the founder and/or majority shareholder of a diverse range of business interests, from air transport, food and beverages, pharmaceutical distribution and real estate development, among others.

Brief History and Recent Developments

From one (1) branch in 1997, within the second year from its incorporation, the Bank established 8 branches in Metro Manila and surrounding provinces. In its second year of operations, PBB was also granted the approval by the BSP to engage in FCDU operations.

Over the next five (5) years, the branches increased to a total of 16. PBB was also accredited as a government securities eligible dealer by SEC and became a participant in various lending and rediscounting programs.

In 2003, PBB was granted the authority to undertake trust operations and other fiduciary functions by the MB under Resolution No. 1662 dated 16 November 2003. During the year, the Bank's total branches reached 18.

In 2007, the Bank's shareholders approved the increase in PBB's ACS, from Php1.0 billion divided into 7,000,000 common shares and 3,000,000 preferred shares, at a par value of Php100 for each common and each preferred share, to Php3.0 billion, divided into 17,000,000 common shares and 13,000,000 preferred shares. The increase in PBB's ACS was approved by the SEC in September 2009.

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.

In 2008, the Bank expanded into ATM operations with "Business Card", PBB's ATM card. At the end of 2009, PBB had a total of 48 branches and 10 ATMs in its network. By the end of 2010, PBB had a total of 55 branches and provided 24-hour banking services through its network of 11 ATMs.

The following year, in 2009, PBB became the first savings bank to be granted the authority by the BSP to issue foreign letters of credit and to accept, negotiate, or pay import and export drafts and bills of exchange. The Bank has established correspondent banking relationships with six (6) foreign banks.

In 2011, in line with its thrust to expand its market coverage and acquire new client accounts, PBB increased its number of branches to a total of 65 and a total of 24 ATMs.

In July 2012, in anticipation of the Offer, the shareholders of the Bank approved (a) the declaration of stock dividends of 200,000,000 new common shares to stockholders of record as of July 30, 2012, (b) the change in the par value per share of its common and preferred stock from Php100.00 to Php10.00, and (c) the increase in the Bank's ACS from 17,000,000 common shares to 870,000,000 common shares. Other amendments to the Articles and Bylaws of the Bank include the waiver of pre-emptive rights, and the formalization of Board committees.

The Bank filed its application for the increase in ACS with the SEC and other amendments to its Articles of Incorporation and By-laws on August 16, 2012. The SEC approved the forgoing application on November 16, 2012. Immediately prior to the Offer, PBB has 242,000,000 issued and outstanding common shares.

Upon completion of the Offer, the total issued and outstanding shares will amount to 343,333,400. The Offer Shares will comprise 29.51 per cent of PBB's issued and outstanding common stock after the Offer.

As of the date of this Prospectus, the following individuals are members of the PBB's Board of Directors and Senior Management:

Name	Nationality	Position	Age
Amb. Alfredo M. Yao	Filipino	Chairman Emeritus	68
Francis T. Lee	Filipino	Chairman	64
Peter N. Yap	Filipino	Vice Chairman & Chief Operations Officer	65
Rolando R. Avante	Filipino	President and Chief Executive Officer	53
Amador T. Vallejos, Jr.	Filipino	Director	65
Jeffrey S. Yao	Filipino	Director	44
Honorio O. Reyes- Lao	Filipino	Director	68
Paterno H. Dizon	Filipino	Independent Director	74
Benjamin R. Sta. Catalina, Jr.	Filipino	Independent Director	64
Leticia M. Yao	Filipino	Director	59
Josephine Joy D. Caneba	Filipino	Corporate Secretary	32
Roberto S. Santos	Filipino	Asst. Corporate Secretary and Legal Counsel	63
Joseph Edwin S. Cabalde	Filipino	Treasurer	42
Alice P. Rodil	Filipino	Senior Vice President and Controller	55

Competitive Advantages

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 48 in 2009 to 72 as of September 30, 2012 coinciding with the growth in the PBB's deposit base from Php12.7 billion in 2009 to Php23.01 billion as of September 30, 2012 and its portfolio of loans and receivables from Php11.8 billion in 2009 to Php19.62 billion as of September 30, 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 2009, PBB's AFS and trading portfolio amounted to Php3.24 billion. As of September 30, 2012, the AFS holdings and other trading portfolio (FVPL) of the Bank reached Php5.61 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 5.21 per cent in 2009, 2.81 per cent in 2010 and 3.6 per cent in 2011. In comparison, NPL ratio of CTB members was at 7.3 per cent in 2009, 7.3 per cent in 2010, and 5.76 per cent in 2011. PBB's ratio of NPA (or NPL plus ROPA) to total assets was at an average of 6.78 per cent over the three-year period while CTB members' was at an average of 8.07 per cent. Restructured loans as a percentage of the Bank's total loans in the same period was at an average of 0.3 per cent.

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 16.34 per cent and 14.49 per cent, 22.77 per cent and 21.64 per cent, and 26.44 per cent and 25.41 per cent for the years ending December 2009, 2010, and 2011, respectively, consistently and significantly above the 10 per cent minimum requirement of the BSP. In comparison, average CAR of members of the CTB, over the same years was at 12.1 per cent, 12.6 per cent, and 15.5 per cent, respectively. As of September 30, 2012, CAR and Tier 1 CAR of the Bank was at 21.92 per cent and 21.01 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.

Key Business Activities

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.

Business Strategies

PBB aims to continue and accelerate its growth and be regarded as a leading institution in the Philippine banking industry. To achieve this objective, key components of the Bank's strategy include:

1. Expand branch network to increase PBB's presence throughout the country and expand the range of banking products and services that selected branches will offer.

The Bank aims to expand its presence in all major commercial and industrial areas, particularly those areas showing rapid growth of SMEs and entrepreneurial activity. In particular, PBB has focused its branch expansion efforts in areas such as Caloocan, Malabon, Navotas, Valenzuela, Quezon City as well as highly urbanized cities outside Metro Manila such as Cebu, Davao and Bacolod. By the end of 2012, PBB aims to have a total of 85 branches and expand this network to 100 branches by the end of 2013. As of the date of this Prospectus, the Bank has 72 branches, of which 41 are located in Metro Manila and the balance in various provinces. At present, PBB has13 unfulfilled branch licenses, nine (9) of which are for locations in Restricted Areas and the balance of four (4) in provincial locations. Aside from fulfilling existing branch licenses, the Bank will also acquire from the BSP additional branch licenses in targeted areas.

In addition to the increase in the number of PBB's branches, the Bank also intends to expand the range of products and services that it shall offer. Among such plans include the establishment of treasury desks in selected branches which will offer government securities and other treasury products to the Bank's high net worth and commercial clients. Through this effort, the Bank expects to increase its fee based income from the distribution of such products to its client network. PBB has been an accredited Government Securities Eligible Dealer since 2003.

2. Broaden securities trading activities

While PBB aims to realign asset allocation to allow for loan and interest income growth, PBB will continue to rely on its treasury and securities trading operations to ensure the Bank's liquidity and improve capital utilization during periods of low loan demand and/or excess liquidity.

For this reason, the Bank aims to expand its authority to expand its trading activities. For example, PBB has applied for Type 3 Dealer Authority with the BSP to allow the Bank to engage in the derivatives trading such as credit linked notes and interest and foreign exchange forwards and swaps.

3. Increase the Bank's portfolio of consumer loans, including vehicle financing, housing, salary and other highly profitable loan products

The Bank intends to exploit its position among SMEs and its presence in communities to market its consumer banking services and products. As of September 30, 2012, total consumer loans of PBB amounted to Php756.55 million representing 4.28 per cent of total outstanding loans. The Bank intends to increase consumer loans so that by the end of 2013, its consumer loan portfolio will increase significantly as a percentage of total loans outstanding.

4. Strengthen the Bank's organization

The Bank intends to complement its strategy of attracting and retaining experienced bank officers and managers by providing training and development programs to its employees. PBB aims to capitalize on the pool of knowledge and experience that it has acquired over the years to develop and implement such programs. Among such training programs under development include Branch Officers' Training Program, Leadership Development Program, Management Development Program, Managing Customer Service, Customer Service Excellence, Core Credit Course, Selling Bank Products and Services and Work Attitude and Values Program.

5. Strengthen management, compliance, governance, risk management frameworks, policies and practices

PBB also recognizes that continuing improvements with respect to management, compliance, governance and risk management to be critical for stability and continued growth and profitability. Aside from training and development programs to educate its existing and future personnel on such aspects, the Bank is also developing and instituting policies and processes to strengthen credit processes, risk management controls, internal controls and legal compliance.

To facilitate the implementation of these frameworks, policies and practices, the Bank is likewise strengthening its IT system to provide its managers and officers with necessary information and analytics. The enhanced IT system aims to provide business intelligence for the Board of Directors and senior management; improve the CORE systems such as central loans management and monitoring system, streamline peripheral systems such as the anti-money laundering system and trust system, and upgrade the current infrastructure to support the business strategies and plans of the Bank. Over the past years, PBB has developed its deposit system which is integrated to the Bank's general ledger system, loans origination and management systems, payroll system. Bills purchase system, AMLA transactions reporting system and the establishment of a data warehouse for data analytics used by the Bank's Risk Management Center.

6. Increase PBB's name recognition and recall

Although name recognition and recall of the Bank is strong within the communities of PBB's older branches, the Bank realizes the need to increase brand awareness, image and preference in new and prospective branch locations and eventually, throughout the country. The Bank is currently implementing an improved marketing and advertising strategy to support this objective.

7. Explore future prospects for raising capital

With current CAR and the CAR improvements arising from the proceeds of the Offer, the Bank is well positioned to raise new capital for further expansion of its operations. Following the Offer, the Bank will evaluate prospects for raising Hybrid Tier 1 or Tier 2 capital in the next few years.

Employees

As of the date of this Prospectus, the Bank has a total of 728 employees broken down into the following categories:

Executives………………………...................................	60
Managers – Operations and Support…………………...	33
Managers – Branch / Marketing………………………..	60
Staff………………………………………………….	575
Total…………………………………………………	**728**

Of PBB's total employees, 336 are located in PBB's head office in Caloocan City and 392 are located in the various branches throughout the country.

To facilitate day to day management of operations, the Bank has grouped its profit centers (i.e. commercial and consumer banking, treasury), credit services (including remedial, collection, and legal), branch banking operations, and IT into one cluster under the direct supervision of its President and CEO. Head office operations, administration and controls, and other support services, on the other hand, are under the direct supervision of PBB's Vice Chairman and COO.

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.

Branches

From a single branch in 1997, PBB's branch network has grown to a total of 72 branches as of September 30, 2012. Of this total, 41 branches are located in various strategic points in Metro Manila and 31 branches are located in key urban locations in various provinces. Each of these branches is positioned in business, commercial, and industrial areas, particularly those areas which exhibit a number of SMEs, the Bank's target segment.

As of the date of this Prospectus, PBB has a total of 13 unfulfilled branch licenses of which nine (9) are for Metro Manila branches and the balance of four (4) for provincial branches.

PBB's branches play a critical role in revenue and funds generation. Branch managers are responsible for developing customer accounts in their respective catchment areas and are evaluated based on the number of clients they accumulate, the total amount of deposits generated and loans referred for processing and approved by PBB's account management units, among other performance measures.

PBB has organized its branches into seven (7) regional groups, supervised by a branch group head to facilitate management and reportorial requirements of its branches. These branch groups and the number of branches within each are:

Branch Groups	Number of Branches
Metro Manila:	
Binondo Group	5
Quezon City, Caloocan, Malabon, Navotas, Valenzuela Group	34
Makati Group	2
Northern Luzon Group	5
Central Luzon Group	11
Southern Luzon Group	6
Visayas-Mindanao Group	9
Total	**72**

As the Bank's branch network expands, it intends to restructure the above-mentioned groupings to improve management and coordination of branches in the different regions of the Philippines

ATM Network

In 2008, PBB began the development of its ATM network to provide 24-hour banking services to its clients. As of the date of this Prospectus, a total of 37 ATMs are in operation, of which, 32 are located on-site or within a Bank branch and the remaining five (5) ATMs located off-site.

Of the total number of ATMs, as of the date of this Prospectus, 23 are located in Metro Manila and the remaining 14 are located in various provinces.

PBB is a member of Bancnet, one of the major ATM consortiums in the country, giving PBB clients access to ATM services of other Bancnet members and allows non-PBB clients access to the Bank's ATMs. Through Bancnet's relationships with other ATM networks, PBB clients have access to all ATM networks operating in the country.

RISK OF INVESTING

The Bank encourages any prospective investor to evaluate and consider the risks associated with the Common Shares; for the purpose, presented below, in the order of importance based on the Bank's perspective, are the risks which are material to investing in PBB:

1. Risks relating to PBB;
2. Risks relating to the Philippines;
3. Risks relating to the Offer and Common Shares;
4. Risks relating to the statistical information in the Prospectus.

Please refer to the section entitled "Risk Factors" on page 29 of this Prospectus, which, while not intended to be an exhaustive enumeration of all the risks, must be considered in making an investment decision on the securities of PBB.

CORPORATE INFORMATION

PBB is a Philippine corporation with its registered office and principal executive offices located at 350 Rizal Avenue Extension corner 8th St., Grace Park, Caloocan City. PBB's telephone number is +63(2) 363-3333 and its fax number is +63(2) 364-9171. Its corporate website is www.pbb.com.ph. The information contained in PBB's website is not incorporated by reference into, and does not constitute part of, this Prospectus.

SUMMARY OF THE OFFER

The Bank, through the Joint Lead Underwriters and Bookrunners, is offering for subscription a total of 101,333,400 new Shares at a maximum Offer Price of Php31.50 per Offer Share. The Offer Shares have a par value of Php10.00 per Share and are being made available for subscription and purchase in the Philippines.

The Offer Shares, issued from the Bank's authorized and unissued capital stock, will represent approximately 29.51 per cent of the Bank's issued and outstanding capital stock of 343,333,400 Shares immediately after completion of the Offer.

The Offer will commence at 9:00 a.m. of February 6, 2013 and will end at 12:00 noon of February 12, 2013.

The Offer Shares will be listed on the First Board of the Philippine Stock Exchange upon approval by the Board of PSE and the issuance by the SEC of the Permit to Sell Securities, and subject to the Bank's compliance to the conditions imposed by the PSE on the listing of the Offer Shares.

Use of Proceeds

The net proceeds of the Offer, estimated at Php3,008.63 million, shall be used to finance the following: (1) PBB's branch expansion, including the acquisition of new branch banking licenses from the BSP; (2) Information Technology ("IT") project developments and implementation; and, (3) asset acquisition. See section entitled "Use of Proceeds" on page 43 of this Prospectus.

Statistics Relating to the Common Shares

Authorized capital stock (1)	870,000,000
Common shares outstanding before the Offer (2)	242,000,000
New Shares to be issued in the Offer	101,333,400
Offer Price per Share	Php31.50
Common shares outstanding after the Offer	343,333,400
Approximate market capitalization at the Offer Price (3)	Php10.815 billion

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Notes:

(1) On November 16, 2012, the SEC approved PBB's application for an increase in its authorized capital stock from Php3 billion to Php10 billion divided into 870,000,000 common shares with par value of Php10.00 per share and 130,000,000 preferred shares with par value of Php10.00 per share. The SEC also approved the change in the par value of each common share from Php100.00 to Php10.00.

(2) On November 16, 2012, the Bank issued 200,000,000 common shares equivalent to Php2.0 billion worth of stock dividends upon approval of the BSP and SEC of the increase in ACS of PBB.

(3) Calculated by multiplying the Offer Price per Share by the number of Shares in issue immediately after completion of the Offer.

Lock-Up / Restrictions of New Share Issuances

Existing stockholders who own an equivalent of at least 10 per cent of the issued and outstanding Shares in the Bank after the Offer are required under the Revised Listing Rules of the PSE not to sell, assign or otherwise dispose of their Common Shares for a minimum period of 180 days after the Listing Date. Pursuant to the foregoing rule, Mr. Alfredo M. Yao, Mr. Francis T. Lee and Zest-O Corporation, who own more than 10 per cent of the Bank's issued and outstanding capital stock after the Offer shall be subject to this lock up requirement.

Furthermore, pursuant to the PSE's rules on share issuances executed and fully paid for within 180 days prior to the start of the offer period with a transaction price lower than the offer price in the initial public offer, said shares shall be subject to a lock-up of 365 days from date of full payment thereof.

In July 2012, the Bank approved the distribution of stock dividends amounting to Php2 billion, corresponding to 200,000,000 Shares each at a par value of Php10.00. The 200,000,000 Shares were issued to PBB's existing shareholders on November 16, 2012 following the approval of PBB's increase in ACS by the SEC.

As a result of the foregoing share lock up rules, the following table shows the parties and their corresponding shareholdings in the Bank which shall be subject to lock-up under the applicable rule:

Shareholder	No. of Shares Subject to the 180-day Lock Up Provision	No. of Shares Subject to the 365-day Lock Up Provision	Percentage of Outstanding Shares Post-Offer
Alfredo M. Yao	22,199,910	105,713,856	37.26%
Zest-O Corporation	14,999,940	71,428,286	25.17%
Francis T. Lee	4,200,000	20,000,000	7.05%
Leticia M. Yao		714,286	0.21%
Armando M. Yao		714,286	0.21%
Erlinda M. Yao		714,286	0.21%
Jeffrey S. Yao		714,286	0.21%
Rolando R. Avante		48	0.00%
Amador T. Vallejos Jr.		474	0.00%
Benjamin R. Sta. Catalina, Jr.		48	0.00%
Paterno H. Dizon		48	0.00%
Honorio O. Reyes-Lao		48	0.00%
Peter N. Yap		48	0.00%
Total	**41,399,850**	**200,000,000**	**70.31%**

Except for the issuance of the Offer Shares pursuant to the Offer or Common Shares for distribution by way of stock dividends, the PSE will require the Bank, as a condition to listing of the Common Shares, not to issue new shares in its capital or grant any rights to or issue any securities convertible into or exchangeable for, or otherwise carrying rights to acquire or subscribe to, any shares in its capital or enter into any arrangement or agreement whereby any new shares or any such securities may be issued for a period of 180 days after the Listing Date.

Preferred Shares

As of the date of this Prospectus, the Bank is authorized to issue 130,000,000 preferred shares with a par value per share of Php10.00 for an aggregate par value of Php1.3 billion. To date, PBB has issued Php620 million worth of preferred shares.

Preferred Shareholder	No. of Shares	Amount Paid (Php)
Alfredo M. Yao	5,500,000	55,000,000
Jeffrey S. Yao	6,462,500	64,625,000
Carolyn S. Yao	10,250,000	102,500,000
Mary Grace S. Yao	5,287, 500	52,875,000
Zest O Corporation	34,500,000	345,000,000
Total	**62,000,000**	**620,000,000**

None of the preferred shares will be listed in the Exchange.

TERMS AND CONDITIONS OF THE OFFER

Offer Shares	PBB, through the Joint Lead Underwriters and Bookrunners, is offering up to 101,333,400 Offer Shares with a par value Php10.00 per share. 20,269,200 Offer Shares are being sold and offered to all the trading participants of the PSE while 10,133,400 Offer Shares are being sold to Local Small Investors. The balance of 70,930,800 Offer Shares shall be distributed to the QIBs and the general public through the Joint Lead Underwriters and Bookrunners.
Offer Price	The Offer Shares are being offered at a price of Php31.50 per share.
Offer Period	The Offer Period shall commence on February 6, 2013 and end at 12:00 noon of February 12, 2013. PBB and the Joint Lead Underwriters and Bookrunners reserve the right to extend or terminate the Offer Period with the approval of the SEC and the PSE. Applications must be received by the Receiving Agent not later than 12:00 noon, Manila Time on February 12, 2013 if filed through a Selling Agent or PSE Trading Participants. Applications received thereafter or without the required documents will be rejected. Applications shall be considered irrevocable upon submission to the Selling Agent or Joint Lead Underwriter and Bookruner, and shall be subject to the terms and conditions of the offer as stated in this Prospectus and in the Application. The actual subscription and/or purchase of the Offer Shares shall become effective only upon the actual listing of the Offer Shares on the PSE.
Minimum Subscription Eligible Investors and	Each Application must be for a minimum of 500 Offer Shares, and thereafter, in multiples of 100 Offer Shares. No Application for multiples of any other number of shares will be considered.
Restrictions on Ownership	The Offer Shares may be subscribed to or held by any person of legal age or duly organized and existing corporations, partnerships or other juridical entities regardless of nationality, subject to the restriction by law. Pursuant to, R.A. No. 7906 or the Thrift Banks Act of 1995, aggregate foreign ownership in the Bank cannot exceed the maximum of 60 per cent of the issued and outstanding voting stock. An individual non-Filipino individual and non-bank entity can only acquire up to 40 per cent of the issued and outstanding voting stock of the Bank. Accordingly, the Bank cannot allow the issuance of shares or record the transfer of shares to persons other than Philippine Nationals if such issuance or transfers shall exceed the above-mentioned foreign ownership limits.

Procedure for Application	Application forms to subscribe for Offer Shares in the Offer may be obtained from the Selling Agents or the Joint Lead Underwriters and Bookrunners. All Applications shall be evidenced by the Application to Subscribe and Purchase form, duly executed in each case by an authorized signatory of the applicant and accompanied by one (1) completed signature card, which in the case of corporate and institutional applicants, should be authenticated by the corporate secretary, and the corresponding payment for the Offer Shares covered by the Application, photocopy of two (2) valid identification cards (IDs) for each signatory and all other required documents. The duly executed Application and required documents should be submitted during the Offer Period to the same office where it was obtained. If the applicant is a corporation, partnership, or trust account, the Application must be accompanied by the following documents: A certified true copy of the applicant's latest Articles of Incorporation and By-laws or Partnership and other constitutive documents (each as amended to date) duly certified by its corporate secretary; A certified true copy of the applicant's SEC certificate of registration duly certified by its corporate secretary; A duly notarized corporate secretary's certificate setting forth the resolution of the applicant's board of directors or equivalent body authorizing the purchase of the Offer Shares indicated in the application, identifying the designated signatories authorized for the purpose, including his or her specimen signature, and certifying the percentage of the applicant's capital or capital stock held by Philippine Nationals. Foreign corporate and institutional Applicants, in addition to the documents required for corporate Applicants, are required to submit, in quadruplicate, together with the Application, a representation and warranty stating that their investing in the Offer Shares being applied for will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Offer Shares.
Payment Terms	The Offer Shares must be paid for in full upon submission of the Application. Payment must be made by a check drawn against a bank in Metro Manila to the order of "PBB IPO". The check must be dated as of the date of submission of the Application and crossed for deposit.

Acceptance/Rejection of Applications	The actual number of Offer Shares that an Applicant will be allowed to subscribe for in the Offer is subject to the confirmation of the Joint Lead Underwriters and Bookrunners. Applications shall be subject to the final approval of the Bank. The Bank, through the Joint Lead Underwriters and Bookrunners, reserves the right to accept or reject, in whole or in part, any Application. Applications where checks are dishonored upon first presentation and Applications which do not comply with the terms of the Offer shall be rejected. Any payment received pursuant to the Application does not mean approval or acceptance by the Bank of the Application. An Application, when accepted, shall constitute an agreement between the applicant and the Bank for the subscription to the Offer Shares at the time, in the manner and subject to the terms and conditions set forth in the Application and those described in this Prospectus. Notwithstanding the acceptance of any Application by the Joint Lead Underwriters and Bookrunners or their duly authorized representatives, acting for or on behalf of the Bank, the actual subscription and/or purchase by the applicant of the Offer Shares will become effective only upon listing of the Offer Shares on the PSE and upon the obligations of the Joint Lead Underwriter and Bookrunner and Selling Agents under the Underwriting Agreement becoming unconditional and not being suspended, terminated or cancelled, on or before the Listing Date, in accordance with the provision of the said agreement. If such conditions have not been fulfilled on or before the periods provided above, all application payments will be returned to the applicants without interest and, in the meantime, the said application payments will be held in a separate bank account with the Receiving Agent.
Refunds	In the event that the number of Offer Shares to be received by an applicant, as confirmed by the Joint Lead Underwriters and Bookrunners, is less than the number covered by its Application, or if an Application is rejected by the Bank, then the Joint Lead Underwriters and Bookrunners shall refund, without interest, within five (5) Banking Days from the end of the Offer Period, all, or a portion of the payment corresponding to the number of Offer Shares wholly or partially rejected. All refunds shall be available for pick-up at the office of the Receiving Agent by February 19, 2013.
Documentary Stamp Taxes	All documentary stamp taxes applicable to the original issuance of the Offer Shares by the Bank shall be for the sole account of PBB.
Registration and Lodgment of Shares with the PDTC	All Offer Shares will be issued in scripless form and lodged with the PDTC. The Applicant should indicate the lodgment information in the Application. The Offer Shares will be lodged with the PDTC at least two (2) trading days prior to the Listing Date. The Applicant may request for the upliftment of their shares and to receive stock certificates evidencing their investment in the Offers Shares through his/her broker after the Listing Date. Any expense to be incurred on such issuance of certificates shall be borne by the Applicant.

Registration of Foreign Investments	The Bangko Sentral ng Pilipinas requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the banking system. The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor. See "Foreign Exchange Regulations and Ownership."
Restriction on Issuance and Disposal of Shares	Existing shareholders who own an equivalent of at least 10 per cent of the issued and outstanding capital stock of the Bank after the Offer are required, under the Revised Listing rules of the PSE applicable to companies applying for listing on the PSE First Board, not to sell, assign or otherwise dispose of their common shares for a minimum period of 180 days after the Listing Date.

Furthermore, pursuant to the PSE's rules on share issuances executed and fully paid for within 180 days prior to the start of the offer period with a transaction price lower than the offer price in the initial public offer, recipients of stock dividends issued by the Bank on November 16, 2012 are likewise subject to a 365-day lock-up required by the PSE.

The parties and their respective shares covered by the foregoing lock-up provisions:

Shareholder	No. of Shares Subject to the 180-day Lock Up Provision	No. of Shares Subject to the 365-day Lock Up Provision	Percentage of Outstanding Shares Post-Offer
Alfredo M. Yao	22,199,910	105,713,856	37.26%
Zest-O Corporation	14,999,940	71,428,286	25.17%
Francis T. Lee	4,200,000	20,000,000	7.05%
Leticia M. Yao		714,286	0.21%
Armando M. Yao		714,286	0.21%
Erlinda M. Yao		714,286	0.21%
Jeffrey S. Yao		714,286	0.21%
Rolando R. Avante		48	0.00%
Amador T. Vallejos Jr.		474	0.00%
Benjamin R. Sta. Catalina, Jr.		48	0.00%
Paterno H. Dizon		48	0.00%
Honorio O. Reyes-Lao		48	0.00%
Peter N. Yap		48	0.00%
Total	**41,399,850**	**200,000,000**	**70.31%**

Except for the issuance of the Offer Shares pursuant to the Offer or Common Shares for distribution by way of stock dividends or in connection with an ESOP, the PSE will require the Bank, as a condition to listing of the Common Shares, not to issue new shares in its capital or grant any rights to or issue any securities convertible into or exchangeable for, or otherwise carrying rights to acquire or subscribe to, any shares in its capital or enter into any arrangement or agreement whereby any new shares or any such securities may be issued for a period of 180 days after the Listing Date.

Listing and Trading	The Bank's application for the listing of the Shares was approved by the PSE on January 9, 2013. All of the Offer Shares are expected to be listed on the PSE under the symbol "PBB" on or about February 19, 2013. Trading of the Common Shares that are not subject to lock–up is expected to commence on the same date
Expected Timetable	The expected timetable of the Offer is tentatively scheduled as follows:

Price Setting date	February 1, 2013
Start of Offer Period	February 6, 2013
PSE Trading Participants' Commitment Period	February 6 - 8, 2013
Local Small Investor Offer Period	February 6 -12, 2013
Underwriters' Offer Period	February 6 -12, 2013
End of Offer Period	February 12, 2013
Listing date	February 19, 2013

SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables set forth selected financial information for PBB and should be read in conjunction with PBB's financial statements audited by Punongbayan & Araullo for the years ending December 31, 2009 to 2011 and for the nine-month period ending September 30, 2012, including the notes thereto, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this Prospectus. The following data is qualified in its entirety by reference to all of that information.

Statement of Income Data

In Php Millions	For the years ended December 31			For the 9-month period ended September 30	
	2009 (audited)	2010 (audited)	2011 (audited)	2011 (audited)	2012 (audited)
INTEREST INCOME					
Loans and other receivables	702.08	930.71	963.88	762.78	911.13
Investment securities	261.36	382.96	615.38	460.69	268.82
Securities purchased under reverse repurchase agreements	-	30.14	59.44	25.52	45.94
Interbank loans receivable	32.43	-	-	-	-
Due from Bangko Sentral ng Pilipinas and other banks	7.88	15.04	19.28	12.30	14.22
	1,003.75	1,358.84	1,657.97	1,261.28	1,240.11
INTEREST EXPENSE					
Deposit liabilities	313.48	400.27	536.22	392.95	446.97
Bills payable & other liabilities	20.87	48.63	36.24	34.9	15.07
Total	334.35	448.90	572.46	427.85	462.04
NET INTEREST INCOME	669.40	909.95	1,085.51	833.43	778.07
IMPAIRMENT LOSSES	65.47	199.32	50.00	38.00	68.26
NET INCOME AFTER IMPAIRMENT LOSSES	603.93	710.63	1,035.51	795.43	709.81
OTHER INCOME					
Trading gains – net	55.07	608.21	594.88	383.18	630.24
Service charges, fees and commissions	88.08	113.69	65.54	49.25	47.39
Miscellaneous	50.93	58.81	102.53	76.71	85.66
	194.09	780.72	762.95	509.14	763.29
OTHER EXPENSES	533.80	805.32	951.93	661.47	801.77
PROFIT BEFORE TAX	264.22	686.02	846.54	643.09	671.33
TAX EXPENSE	46.43	2.74	99.56	93.37	47.23
NET PROFIT	217.79	683.28	746.97	549.72	624.10
OTHER COMPREHENSIVE INCOME					
Fair value gains in available-for-sale securities during the year – net	14.71	45.18	433.89	133.92	127.86
Fair loss recycled to profit or loss	0	20.89	28.03	2.69	(383.81)
	14.71	66.07	461.92	136.61	(255.66)
TOTAL COMPREHENSIVE INCOME	232.50	749.35	1,208.89	686.33	368.43

Statement of Financial Position Data

In Php millions	For the years ended December 31			For the 9-month period ending September 30	
	2009 (audited)	2010 (audited)	2011 (audited)	2011 (audited)	2012 (audited)
ASSETS					
Cash and other cash items	192.83	243.97	297.08	208.57	243.34
Due from Bangko Sentral ng Pilipinas	207.56	383.66	1,119.32	915.26	1,270.63
Due from other banks	202.99	385.01	630.69	301.15	1,138.68
Financial assets at fair value through profit or loss	-	-	207.74	808.14	1,832.12
Available-for-sale securities	3,245.69	6,623.02	5,710.86	5,146.06	3,779.67
Loans and other receivables – net	11,820.42	13,369.67	16,704.66	15,483.46	19,621.17
Bank premises, furniture, fixtures and equipment – net	313.94	320,37	340.82	328.04	381.71
Investment properties – net	306.18	282.53	397.39	384.59	438.38
Other resources – net	430.04	506.99	476.25	398.10	956.57
TOTAL ASSETS	16,719.63	22,115.22	25,884.82	23,973.37	29,662.27
LIABILITIES AND EQUITY					
Deposit liabilities:					
Demand	214.59	403.36	318.44	238.22	354.07
Savings	7,828.93	8,870.64	8,733.28	8,232.71	8,586.37
Time	4,639.24	8,313.40	12,143.27	11,258.44	14,065.60
Total Deposit Liabilities	12,682.76	17,587.41	21,194.99	19,729.37	23,006.04
Bills payable	1,214.71	1,213.00	121.48	98.67	897.00
Accrued expenses and other liabilities	1,107.66	850.97	895.61	995.16	1,343.05
TOTAL LIABILITIES	15,005.13	19,651.38	22,212.08	20,823.20	25,246.09
CAPITAL FUNDS	1,714.50	2,463.84	3,672.74	3,150.17	4,416.18
TOTAL LIABILITIES AND CAPITAL FUNDS	16,719.63	22,115.22	25,884.82	23,973.37	29,662.27

Statement of Cash Flows Data

In Php Millions	For the years ended December 31			For the 9-month period ending September 30	
	2009 (audited)	2010 (audited)	2011 (audited)	2011 (audited)	2012 (audited)
Net cash provided by (used in) operating activities	(1,346.79)	4,315.67	2,361.17	1,852.28	(3,933.00)
Net cash used in investing activities	(183.29)	(3,352.70)	1349.8	1,594.40	1,649.96
Net cash provided by (used in) financing activities	932.24	(1.71)	1091.52	(1,114.33)	1,150.52

Key Performance Indicators and Ratios

	For the years ended December 31			For the 9-month period ending September 30	
	2009	2010	2011	2011	2012
Tier 1 Capital Adequacy Ratio[(1)]	14.49%	21.64%	25.41%	25.82%	21.01%
Total Capital Adequacy Ratio[(2)]	16.34%	22.77%	26.44%	26.91%	21.92%
Return on average assets[(3)]	1.50%	3.50%	3.50%	2.39%	2.25%
Return on average equity[(4)]	14.18%	32.70%	24.30%	19.58%	15.43%
Net interest margin[(5)]	4.90%	5.00%	4.80%	3.84%	2.99%
Cost-income ratio[(6)]	44.56%	37.64%	39.32%	37.76%	40.02%
Loans to deposits ratio[(7)]	75.24%	63.75%	64.21%	61.32%	76.78%
Total non-performing loans to total gross loans[(8)]	5.21%	2.81%	3.59%	6.19%	4.54%
Allowance for impairment on loans to total gross loans [(9)]	2.70%	4.35%	3.61%	4.35%	3.15%
Allowances for impairment on loans to total NPLs[(10)]	51.82%	154.79%	100.61%	70.32%	69.39%
Loans-to-deposits ratio (BSP formula)[(11)]	111.12	97.43	106.67	102.72	104.58
Total non-performing loans to total gross loans (BSP formula)[(12)]	4.90	2.55	2.99	4.93	4.30

Notes:

1. *Tier 1 capital divided by total risk-weighted assets as disclosed in the BSP report of the Bank for the relevant period.*
2. *Total qualifying capital divided by total risk-weighted assets as disclosed in the BSP report of the Bank for the relevant period*
3. *Net income (loss) divided by average total assets for the periods indicated. Total average assets is equivalent to total assets at the beginning and end of the period divided by two.*
4. *Net income (loss) divided by average total equity for the periods indicated. Average equity is equivalent to total equity at the beginning and end of the period divided by two.*
5. *Net interest income divided by average interest-earning assets. Interest earning assets include Due from BSP, due from other banks, interbank loans and receivables, securities purchased under a resale agreement, Average interest-earning assets is equivalent to average interest-earning assets at the beginning and end of the period divided by two.*
6. *Total operating expenses divided by the sum of interest income and other income*
7. *Loans to Deposit Ratio refers to gross loans and discounts (before unearned discount and impairment) divided by total deposits*
8. *Total NPLs divided by total gross loans and discounts (before unearned discount and impairment).*
9. *Total allowance for impairment losses divided by total gross loans and discounts (before unearned discount and impairment).*
10. *Total allowance for impairment losses divided by total gross loans and discounts (before unearned discount and impairment).*
11. *Loans & discounts (gross) + Securities purchased under reverse repurchase agreements divided by Total deposits (balance 6 months prior) less FCDU deposits (balance 6 months prior) less Cash in bank (balance 6 months prior) less Reserve requirement (for the peso deposits (balance 6 months prior)*
12. *Non-performing loans divided by Loans & discounts (gross) + Securities purchased under reverse repurchase agreements. Non-performing loans is computed as the sum of past due loans and items under litigation.*

RISK FACTORS

Prior to making an investment decision, the prospective investors should carefully consider the risks described below in addition to the other information set forth in this Prospectus including the Bank's financial statements and notes relating thereto included herein.

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There may be a big difference between the buying price and the selling price of these securities. Investors deal in a range of investments, each of which may carry a different level of risk.

This risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. Any investor should undertake his or her own research and study on the trading of securities before commencing any trading activity. He/she may request information on the securities and the issuer thereof from the SEC which are available to the public.

An investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities.

The means by which the Bank plans to address the risk factors discussed herein are principally presented in the sections of this Prospectus entitled "Business Strengths" and "Business Strategies" on page 69 and "Management of Risks" discussed in the Management Discussion Analysis on page 37.

RISKS RELATING TO PBB

PBB operates in a highly competitive environment, against larger players, and faces significant challenges to its ability to sustain or gain a share of the market and generate profit.

PBB competes against both local and branches of foreign banks that offer similar financial products and services. Relative to PBB, some of these banks have relatively larger organizational, branch network monetary resources, better name recognition and greater market share. PBB can be placed at a disadvantage against these larger competitors due to scale economies, broader reach and stronger market presence of these competitors, among other advantages.

Competition in industry can also intensify in the future. Continued expansion of larger and more established banks can saturate markets that PBB intends to serve. Alliances and/or mergers and acquisitions can result in stronger institutions which are better positioned to compete against the Bank. New entrants, foreign or domestic, can also increase competition in the industry as these entrants seek to gain market share.

With the level of competition in the industry, the presence of larger and more established institutions relative to the Bank and the prospect of greater competition in the future, there can be no assurance that PBB can sustain the level of its growth, margins, financial condition and results of operations. There can also be no assurance that the execution of PBB's growth and expansion strategies will be adequate to mitigate the risks arising from competition.

PBB's line of business is closely monitored and regulated by the Government through policies that may significantly impact its daily operations and profit margins.

PBB is regulated by the BSP through the regular and special examination and review of reports that all banks are required to submit. The current laws and regulations governing PBB and all other banks in the Philippine banking industry may evolve as the Philippine economy, along with its commercial and financial markets, undergoes periods of change. Due to this volatile and dynamic environment, the legal and regulatory framework in the Philippine banking industry differs in some material aspects from those enforced in other areas and jurisdictions. For example, the Government has imposed an agrarian reform and agriculture lending policy that requires Philippine banks to grant loans to agricultural sectors of the country and agrarian beneficiaries. Banks that fail to comply by falling below the specified level of loans granted to these sectors may be fined by the Government. There is no absolute guarantee that these fines will not be significantly changed by the Government, which may have a negative impact on the Bank's financial performance in the event of non-compliance with the regulation. Another example is the BSP's policies prohibiting banks from having a financial exposure to any individual, entity or group of connected persons in excess of 25 per cent of its net worth, except when the transactions involve Government related entities or guaranteed by the Government, among others. As of September 30, 2012, PBB's single borrower's limit ("SBL") is in accordance with the BSP ruling, which is 25 per cent of unimpaired capital.

The Government has made additions and modifications to existing rules and regulations that have tightened control mechanisms and encouraged a greater degree of transparency in the Philippine banking sector. For example, the BSP monitors and regulates "overbought and oversold positions," defined as the excess accumulated foreign currency assets/liabilities over that of accumulated foreign currency liabilities/assets, and as recently as 2007 the legal limit with respect to such positions was increased from five (5) per cent to 20 per cent of unimpaired capital, or U.S$50.0 million, whichever is lower. PBB has also made initial steps to comply with the requirements under Basel 1.5. Currently, PBB, like any bank in the Philippines, is subject to regulations, policies and guidelines enforced and issued by other regulatory agencies and authorities in the Philippines, including the Anti-Money Laundering Council ("AMLC"), the Philippine Bureau of Internal Revenue ("BIR") and international bodies, like the Financial Action Task Force (the "FATF"). In the event that new rules or regulations are put forward by these authorities, PBB may have to incur significant monitoring and compliance costs to meet these new requirements. If PBB will not be able to comply with these new rules and regulations, daily operations may be disrupted, penalties might be incurred and the Bank's business reputation might be negatively affected, which in turn could have a substantial impact on PBB's operations and financial results.

In addition, in the event that PBB decides to operate as, and is granted the license to act as a universal bank and launch new products and lines of business, it may be subjected to additional new regulations that do not currently apply under its present banking model. There can be no assurance that the Bank will be able to actually deliver the envisioned new products or services, or deliver such products and services profitably, there can also be no assurance that PBB will be able to comply with the additional requirements, rules, and regulations of a universal bank.

The implementation of PBB's strategies might not be successful.

PBB's primary growth strategy is to expand through the establishment of new branches and the widening of the range of products and services it offers. The growth of PBB's branch network and the addition of financial products and services that it offers expose it to a new set of challenges and risks including, among others, the following:

- PBB may fail to locate branches in the most economically rewarding and attractive areas;
- PBB may not succeed in experiencing economies of scale with the planned growth through the addition of new branches;
- Expanded lending activities may be severely hampered by surrounding economic conditions such as rising interest rates and inflation.
- New services and products offered may require higher compliance and marketing costs compared to PBB's current services or may have lower than expected profit and growth potential and there is no certainty that the addition of these business activities will result in profitability levels estimated by PBB;
- Additional branches, new products and services, and other aspects of the bank's expansion may result in unanticipated capital and operating expenses, including additional IT systems, additional or higher cost manpower, training and personnel development, and other resources which may adversely affect the Bank's financial performance.

PBB also plans to expand its earning asset base to lower its operating cost to income ratio and increase its return on assets and capital. If PBB is unable to grow its earning assets, the only recourse to achieve improved financial performance would be through cost-cutting efforts which may not be possible. If PBB fails to cut costs significantly, there could be a significant negative impact on PBB's financial performance.

PBB is exposed to credit, market, interest rate, foreign exchange, liquidity, operating, and other risks which may have an impact on its future financial performance and standings.

The inability of PBB to manage these various risks could have an adverse impact on its business, operations and financial performance. PBB's interest income and earnings depend on its ability to accurately gauge credit worthiness of its borrowers, provide adequate allowance for credit losses and manage migrations in credit quality and risk concentration of its portfolio. PBB's existing and prospective lending policies, processes and controls may not adequately mitigate the risk of loan loss provisions and write-offs. The success of the Bank's treasury and trading strategies and operations depend upon its capacity to correctly identify and execute mark to market changes in the value of financial instruments caused by fluctuations in market value, interest rates and foreign exchange rates, among other factors. In the event that PBB's estimates differ significantly from actual results and critical assumptions prove inaccurate, it could incur losses that are higher than expected. Such losses may result in liquidity concerns which hamper the Bank's ability to settle obligations as these fall due, resulting in increased costs, loss of reputation, and other detrimental effects that can affect the Bank's performance and standing. Lastly, the Bank's operating controls, policies and processes may not be adequate to prevent losses from transaction failures, human error, fraud, breakdown of its IT systems, and other such events that have a negative impact on its operations and financial results.

PBB has a sizeable credit exposure in particular industries and to some borrowers. The poor performance of these selected industries or the non-performance of a sizeable percentage of these loans could have a significant negative impact on PBB's loan portfolio and business.

PBB currently has credit exposure to various industries and sectors. As of September 30, 2012, PBB's three largest industry exposures were to wholesale and retail trade at Php6,643.80 million, manufacturing at Php3,449.13 million, and service at Php2,934.06 million which together accounted for a total value of Php13,026.99 million which represent 73.75 per cent of PBB's gross loans. The economic trends in these industries and sectors, both locally and globally, will have a significant impact PBB's financial performance. Any substantial downtrend in the performance of these identified sectors, driven by happenings beyond PBB's control, such as enactment of new government policies and regulations or the general performance of the domestic and global economies, will significantly impact the capability of borrowers in these industries to repay their debt to PBB, and in turn will substantially impact PBB's operational and financial performance.

PBB may experience significant losses if it is unable to fully recover the assessed value of collateral when its borrowers default on their obligations.

As of September 30, 2012, 67.44 per cent of PBB's secured loans receivable are collateralized by real estate properties. These collaterals plus PBB's holdings in real estate and other properties acquired ("ROPA") give the Bank a considerable amount of exposure in the Philippine property market. The liquidation value of the collateral, the maximum amount that PBB will most likely get in the event of a sale of the property less the expenses incurred in such a sale held by PBB, may be below the value recorded at the time of the release of the loan. PBB liquidates part of its ROPA and other collateral through public auctions and negotiated transactions at ongoing market prices, which are heavily influenced by buyers. Property prices in the Philippines have generally been volatile and the property market has been highly cyclical. There is no certainty that PBB's loans can be sufficiently covered by the realized value of the attached collateral. The market value of real estate held as collateral can be significantly affected by events such as economic downturns. In some instances, the recorded value of the collateral may be out of date and not accurately mirror their current market value. There are also some circumstances wherein there are no buyers for a particular type of asset held as collateral and it may be difficult to liquidate such collateral at acceptable prices. Any possible decrease in the value of the collateral on PBB's loans, including future collateral received by PBB, would translate to insufficient provisions for credit losses that consequently forces PBB to increase such provisions. In the event that loans become non-performing, there is no certainty that the collateral securing any kind of loan will fully shield PBB from incurring partial or total losses. Any additional amount in PBB's provisions for credit losses would significantly impact its operational and financial performance as well as its capital adequacy ratio.

In addition, PBB may encounter problems and delays in the process of recovering value and liquidating collateral or collecting on any guarantee due to the inefficient enforcement of obligations by the Philippine legal system. Banks in the Philippines are required to undergo a mandated process and follow the steps identified by Philippine law when foreclosing on collateral or enforcing guarantees. This process is governed by administrative and bankruptcy law requirements that may make it more difficult to deal with compared to other regions and jurisdictions. The time delay caused by the bureaucratic process may last several years during which both the market value and physical condition of the collateral may significantly deteriorate particularly inventory of goods or accounts receivables. In addition, collateral of this nature may not be insured. Taken together, these factors expose PBB to certain legal liabilities while the collateral is in PBB's possession. These factors may also substantially lower PBB's ability to unlock the value of its collateral and therefore reduce the comfort in taking security in exchange for granting loans. In some instances, PBB will need to spend on the maintenance of properties held as collateral in order to prevent or slow down their deterioration. The process of liquidating assets and properties held as collateral may also require PBB to pay legal fees and taxes.

PBB's encounters volatility in both its trading activities and its portfolio investments.

PBB participates in both trading and portfolio management activities, primarily through trading positions in selected corporate debt securities and Philippine government securities. In recent years, gains from treasury operations have made a significant contribution to PBB's operating income. In 2009, portfolio gains comprised of interest income from investment securities and realized trading gains contributed 26.42 per cent of total revenues; 46.33 per cent in 2010, 49.99 per cent in 2011 and 44.88 per cent for the nine-month period ending September 30, 2012. Gains obtained from PBB's trading operations experience variability due to economic, political and other conditions that regularly fluctuate. There is no certainty that PBB will achieve trading gains in the future that is in line with its historical performance. In addition, losses may be incurred from trading activities or long term positions on its trading and investment securities may be maintained to have interest income, both of which could have a significant negative impact on the Bank's net income in the future. These risks caused by market volatility and the implementation of a trading and investment strategy are beyond PBB's control and may result in potential losses that could significantly impact its financial performance.

PBB is exposed to interest rate risk and foreign currency risk.

A part of PBB's income is realized from the margin between interest-bearing assets, which include loans and trading securities and interest-bearing liabilities such as deposit liabilities and subordinated debt. Fluctuations in market interest rates, which are neither predictable nor controllable, result to mismatches in the re-pricing of PBB's assets and liabilities, which may ultimately have material and adverse effects on PBB's operations and financial condition. Increasing interest rates on the Bank's liabilities may negatively impact PBB's profitability if PBB is not able to pass along higher interest costs to its clients. If such increased costs are passed on to clients, loans become less attractive and may result in a decline in customer volume and operating revenues. Conversely, decreasing rates on the Bank's liabilities may increase spreads and hence, may allow competitors that would have not been able to operate at lower market interest rates to enter the market in which PBB operates. Although PBB has policies and implements limits to control the impact of fluctuations in interest rate to projected earnings, the response of the Bank to interest rate movements might be delayed and this might have an adverse impact on earnings.

PBB is also subject to exchange rate risk. A decline in the value of peso against foreign currencies may affect the ability of PBB's customers or the Government to service foreign currency debt obligations, in turn, increasing NPLs. On the other hand, peso appreciation can weaken the export market which may reduce credit quality and adversely affect the ability of some of PBB's customers.

PBB is exposed to the risk that fraud and other misconduct could be committed by employees or outsiders.

Banks have large amounts of cash flowing through their systems; hence, reputation and client trust is integral to a bank's business. Incidents of fraud and other misconduct done by bank employees or third parties may damage a bank's reputation and could have severe repercussions to its business, profitability, financial standing and prospects. Moreover, these incidents could lead to administrative or regulatory sanctions by the BSP or other Government agencies in the form of suspensions or limitations to PBB's banking and business activities. Despite the fact that PBB has internal control procedures to prevent fraudulent activities, there can be no guarantee that PBB will be able to avoid and prevent incidents of fraud.

PBB's ability to retain and develop its employees and attract capable personnel has an effect on its current business, expansion plans, and future business performance.

The success of PBB, like any other company, rests on its management and employees. In the event that Bank is unable to retain its existing key officers or develop capable replacements for these individuals, the Bank's operations and business performance will suffer. The demand for competent and experienced bank personnel is increasing, not only from other financial institutions in the country but also from institutions outside the Philippines. The Bank's expansion plans will require it to attract and recruit new managers and employees and given the increasing competition, there is no assurance that the Bank will be able to employ such individuals or employ these at salary and compensation arrangements that are favorable to the Bank.

PBB's risk assessment and monitoring methods varies from those of its more developed and established counterparts.

PBB's risk assessment and monitoring methodologies may be different from other banks and financial institutions. PBB's pertinent risk data such as the credit history and loan exposure of proposed borrowers may be incomplete or obsolete. Consequently, the effectiveness of PBB's risk management may not be at par with other banks. If PBB is unable to attain the necessary expertise and systems similar to its peers, PBB's ability to manage the risks inherent in its business, to expand its base of operations, to fortify its financial position and to enhance its profitability may be adversely affected.

PBB is highly dependent on its IT systems.

PBB's business relies significantly on its IT capability to timely and precisely collect, store and process a large volume of financial and other information in connection with the range of products and services that the Bank offers, throughout the various branches that provide such products and services. In addition, PBB's financial control, risk management, accounting, data collection systems, and communication networks connecting PBB's branches and offices depend significantly on the Bank's IT systems.

PBB is exposed to risk related to its information and technology processes and systems. Both the physical hardware and the software utilized by PBB in its information technology systems are susceptible to damage and problems due to human error, natural disasters, malfunction, misconduct, computer viruses, sabotage, power loss or the disruption or loss of support services from entities such as internet service providers and telephone companies.

PBB searches for ways to defend and shield its computer systems and network infrastructure from physical intrusions as well as security breaches and other problems that arise from the increasing use of the internet. For example, in connection with the installation, maintenance and upgrading of new technology systems, although third party access to the Bank's systems is provided only under strict supervision by representatives of the Bank, there is no certainty that outside parties may cause security breaches or other problematic disruptions. Security of the information stored and processed through PBB's computer systems and network infrastructure would be compromised by computer break-ins and security breaches. PBB uses security systems and implements guidelines, procedures and steps to minimize break-ins, damage and failures. The potential for securities problems and fraud would most likely continue to exist and there is no certainty that any of the security measures in place will be able to prevent them from actually happening. The costs of maintaining the aforementioned security measures may also increase significantly in the future. Failure of these security measures could also have significant negative impact on PBB's operational and financial performance.

The Bank is in the process of continuously improving many of its information and technology systems to keep up with the increasing demand for storage and processing capabilities, the expansion of its branch network, and the automation of its business processes. There can be no certainty that each system will work according to specifications and will interact well with both the existing systems and future additions. Any delays, difficulties, or disruptions encountered by any of these information and technology systems could result in errors, losses, time delays and service disruptions that may translate to actual loss in income and negative customer sentiment towards PBB. These may, in turn, have a significant negative impact in PBB's operational and financial performance.

Majority of PBB's funding comes from its depositors and are primarily short-term in nature. If these depositors do not maintain their funds in PBB, or if other banks would not provide short-term funding to PBB, the Bank's liquidity and performance could be negatively affected.

A large percentage of PBB's funding requirements are sourced from short-term sources, primarily coming from short term loans from other banks and time deposits. As of September 30, 2012, approximately 91.57 per cent of PBB's deposit liabilities were current or had maturities of three (3) months or less. As a result, the maturity profiles of PBB's assets and liabilities have displayed a negative gap in the short term. This problem is expected to endure in the future as PBB's liabilities are of shorter average maturity compared to its loans and investments. This situation crates potential funding mismatches between PBB's earning assets and liabilities.

While these deposits and short-term loans have provided a steady source of funding for PBB, there is no guarantee that this will continue in the future. In the event that PBB is unable to gain or maintain sufficient deposits and short term loans, or if a significant percentage of PBB's depositors do not roll over deposited funds upon maturity, or if other banks do not provide short term loans, PBB's liquidity position could be compromised and in effect, PBB may not be able to fund its loan portfolio and may be forced to look for other sources of funding. PBB cannot give any guarantee as to the terms and conditions of such funding. To the extent that PBB may not be able to acquire adequate funding on reasonable terms, PBB's operational and financial performance along with its liquidity may be negatively impacted.

PBB could be materially and negatively affected by sudden and unfavorable changes in the Philippine banking industry.

PBB's financial condition and performance, like other local banks, is directly affected by trends and movements in the Philippine banking industry. Disruptions in the financial sector or in the general economic conditions of the Philippines may cause the Philippine banking industry, along with PBB, to encounter similar problems faced during the Asian economic crisis such as substantial increases in NPLs, liquidity issues, capital adequacy problems, and other challenges.

The current global economic climate could negatively impact PBB's business.

The global markets have been highly volatile in recent times due to the economic instability occurring in different areas of the world, particularly in Europe, that may continue to persist in the near future. Capital markets around the world, including in Asia, have reacted to these turbulent global economic conditions negatively and further volatility may adversely impact the Bank's business and performance. In addition, some economists have forecasted that the United States, China, and Europe will experience a slower pace of growth. All of these developments may significantly impact trade volumes with potentially untoward effects on the Philippines and eventually on the Bank's business.

There is no assurance that the volatility and uncertainty prevailing in global markets will not spill over and adversely affect credit markets in Asia, including in the Philippines. Any deterioration in the economic conditions in the Philippines as a result of the foregoing factors could materially and adversely affect the Bank's borrowers, clients and counter-parties. This, in turn, could materially and adversely affect the Bank's financial condition and results of operations, as well as the Bank's ability to implement its business strategy. There can also be no assurance that PBB and its operations will be protected against adverse developments arising from the global environment.

PBB is controlled by Ambassador Alfredo M. Yao and his family (the "Yao Family") whose interests may significantly differ from other shareholders in the bank

Immediately before the Offer, the Yao Family directly and indirectly, through companies owned and controlled by the Yao Family, hold a total of 217.8 million issued and outstanding common shares, representing an ownership of 90 per cent in the Bank. After the Offer, and assuming that none of the Yao Family members directly or indirectly subscribe to the Offer Shares, the Yao Family's holdings will be diluted to 67.32 per cent. The interests of the Yao Family may differ significantly from the interests of the Bank and/or the other shareholders and there can be no assurance that the Yao Family will exercise its influence over PBB in a manner that is in the best interests of all shareholders.

RISKS RELATING TO THE PHILIPPINES

PBB is exposed to risks associated with the Philippines because substantially all of the Bank's assets and business activities are based in the Philippines.

To a large extent, all of PBB's income is derived from the Philippines. Hence, PBB's business is highly dependent on the state of the Philippine economy. Factors that may adversely affect the Philippine economy include:

- uncontrollable inflation and increasing interest rates;
- high unemployment, dwindling consumer confidence and low income;
- exchange rate fluctuations;
- slowdown in business, industrial, manufacturing and financial activities;
- credit scarcity resulting in lower consumer spending;
- changes in Government fiscal policy;
- re-emergence epidemic diseases such as SARS and avian influenza;
- natural catastrophes;
- political instability, mutinies, acts of terrorism and military conflict.

There is no assurance that the country will attain strong economic fundamentals in the future. Any abrupt changes in the conditions in the country may adversely affect PBB's business, financial position and profitability.

Political instability in the Philippines may negatively impact PBB's business, financial standing and profitability.

In recent years, the Philippines has seen several unsuccessful military uprisings and, every so often, public protests are held. A turbulent political atmosphere diminishes investor confidence and may adversely affect PBB's business. Despite the high approval ratings of President Benigno S. Aquino III, there can be no assurance that the country will avoid political turmoil.

Terrorist acts and high-profile violent crimes threaten the countries stability and may have an adverse effect on PBB's business, financial standing and profitability.

In recent history, the country has been victim to numerous acts of terrorism. There have been several prominent kidnappings and slayings of foreigners. A number of bombings have occurred. And, most recently, the hijacking of a tourist bus carrying Hong Kong tourists that resulted in the deaths of several passengers took place. These incidents alienate affected parties and have adverse effects on investor confidence, and consequently, the Philippine economy.

PBB's business may be affected by the Philippines' sovereign credit rating.

A downgrade of the Philippines' sovereign credit rating may adversely impact the liquidity of the country's financial markets, increase interest rates, and impair the ability of local companies, including PBB, to acquire additional financing.

Natural catastrophes may negatively affect PBB's business, financial standing and profitability.

The Philippines is plagued by typhoons and is every so often hit by floods, earthquakes and volcanic eruptions. The occurrence of natural disasters may affect the capacity of PBB's clients to fulfill their obligations to PBB.

Also, despite the implementation of business continuity management measures, there can be no assurance that PBB will be fully capable to deal with these kinds of situations and that insurance will fully compensate PBB for the damages and economic causes brought about by these catastrophes.

RISKS ASSOCIATED WITH THE OFFER AND THE SHARES

The Offer Shares are subject to market price fluctuations and liquidity risks.

The market price of securities fluctuates and no one can predict with certainty the behavior of Share price. There is an inherent risk of loss attached to the Offer Shares as downward price movement, even the total loss of its value, is a possibility. Prior to the Offer, there has been no public market for the Shares in the Philippines. Moreover, the Philippine securities markets are substantially smaller, less active, more volatile and less regulated than other more developed markets. Hence, an investor may not be able to sell his/her shares as quickly as he/she would desire at his/her desired price.

Despite the fact that the Offer Price has been determined in consultation with the Joint Lead Underwriters and Bookrunners after rigorous study, the Shares may trade at a significantly different price from the Offer Price subsequent to the completion of the Offer. And although the Offer Shares have been approved for listing by the PSE, there can be no assurance that an active trading market for the Shares will develop or be sustained after the Offer.

Future issuance of new Shares in the public market could adversely affect the prevailing market price of the shares and unfavorably impact the ownership of existing shareholders.

In the interest of business expansion, the Board may resort to raising capital through the issuance of new equity or equity-linked securities. This may cause existing shareholders to experience dilution and/or may result in their shares becoming subordinate to the newly issued securities. Furthermore, the market price of the Shares may decline. The foregoing may affect PBB's ability to raise capital at a time and at a price it deems appropriate.

PBB may be unable to pay dividends on the Shares.

There is no assurance that PBB can or will declare dividends on the Shares in the future. Dividends, if any, are determined by the Board and will depend on PBB's performance, financial standing, capital requirements, loan obligations, legal, regulatory and contractual restrictions, and other factors the Board may deem pertinent.

Risks Pertaining to Statistical Information in this Prospectus

Statistical information and forecasts found in this Prospectus pertaining to the banking industry, the economy and other data were obtained from third parties, market research, internal surveys, government data, public information and industry publications. There is no assurance that these data are complete, accurate, up-to-date, and consistent with other information from sources outside the Philippines.

Management of Risks

As a bank, PBB is faced with various risks specific to its business activities and general risks associated with the environment and markets under which it operates. Although risks are inherent in the Bank's activities, these risks 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 responsibility for the management of these various risks lies with the Board of Directors who defines risk parameters, policies, and capacity of the Bank and the deployment, implementation, and review of risk management activities. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

PBB has a Risk Management Committee composed of selected members of the Board to assist and guide the Board in its risk management responsibilities. The Bank also has a Risk Management Center headed by a Chief Risk Officer ("CRO"), which is responsible for day-to-day audit, compliance checking and review of the risk management activities implemented by various departments and business units of the Bank. The CRO and the Risk Management Center report directly to the Board of Directors through the Risk Management Committee.

Among the various risks PBB faces are the following:

- Credit Risk refers to the risk that a borrower or counter-party in a transaction may default or not meet its obligations and cause a loss to the Bank.

- Market Risk refers to the risks of loss in the value of securities and other investment assets arising from change in market rates or prices and resulting impact of such loss on the financial performance and condition of the Bank.

  The Bank considers interest rate risk and foreign exchange risk of losses on the Bank's assets or earnings arising from a change in absolute level of interest rates or arising from exchange rate changes as sub-categories of market risk.

- Liquidity Risk refers to the risk that the Bank will have insufficient funds to meet maturing liabilities, including demand deposits and off balance sheet commitments.

- Operating Risks refer to losses arising from inadequate or non-compliance with or breaches in internal controls, documentation, security measures, regulatory requirements and standards and other events which can result in settlement or payment failures, legal issues, business interruption, reputation loss and other consequences that will affect the Bank's financial performance and standing.

1. Management of Credit Risk

Credit risk management is implemented by multiple units with PBB, with the Board of Directors establishing credit policies and risk parameters including concentration limits to a single counter-party, a group of related counter-parties, a particular industry or business sector, and/or types and tenor of loan products that are being offered.

The Bank's Credit Committee comprised of the Chairman and Vice-Chairman of the Board, the President and a regular director, is responsible for the implementation of these credit policies and risk parameters. The Credit Committee reviews all loan applications and ensures the quality of the credit analyses and evaluation of lending officers and Credit Services Group who provide financial analyses, collateral review, documentation review and other aspects of the transaction. The Credit Review Group on the other hand, is tasked to review the Bank's existing loan portfolio, identify loans at risk, evaluate for any current and potential concentration risk, and recommend changes in lending policies and practices. The Bank's Risk Management Center, headed by its CRO, as well as the Bank's Assets and Liabilities Committee, also provide independent review of the existing loan portfolio to identify actual and potential risks. The Bank's Legal Services Group is responsible for the management and recovery of distressed loans, including the sale or disposal of acquired assets. Additional controls are contributed by the Internal Audit Center which performs regular independent review of the accounts and the credit process. The Bank's Compliance Officer handles compliance testing.

a. Loan Approval Process and Authority

The approval of a credit facility, whether consumer or commercial, undergoes a well-defined process covering client selection, credit evaluation, industry and market scanning (for commercial accounts), loan structure and collateral review, and documentation before any loan application is approved.

The Bank holds regular weekly Credit Committee meetings where the account officers present their respective loan proposals in the form of Loan Approval Memos ("LAM") to the Committee composed of the President, Chairman, Vice-Chairman, and Chairman Emeritus. Loan applications are prepared by account officers and submitted together with pertinent information provided by the Credit Services Group to the Credit Committee for evaluation.

Currently, the Credit Committee is authorized to approve any loan application, inclusive of credit line renewals, up to Php60 million, regardless of borrower, security (if any), term, and other conditions of the transaction. The Executive Committee is authorized to approve loan applications over Php60 million up to Php99 million. All loans approved by the Executive Committee shall be ratified by the Board of Directors. Loan applications abovePhp99 million have to be approved by the Board of Directors.

The Board of Directors has authorized the Branch Banking Group to approve bills purchase and loans against peso and dollar deposits to a certain limit.

Once approved, availments from the credit lines still require sign-off from the Bank's control units to ensure that the terms of the approval and credit agreement are strictly followed and the established credit limits complied with.

b. Credit Risk Assessment

In compliance with BSP requirements, the Bank maintains an Internal Credit Risk Rating System ("ICRRS") to measure credit risk for commercial and corporate borrowers in a consistent manner. The Bank's ICRRS essentially complies with BSP requirements, which require:

- A Borrower Risk rate that assesses the credit worthiness of the borrower, based on quantitative (i.e. financial performance, liquidity, capital adequacy, leverage, etc.), qualitative factors (i.e. management quality), and industry risks; and,

- A Facility Risk Factor that assesses the loan facility and risk mitigation brought about by collaterals and other security arrangements.

The Bank's ICRRS rating scale is comprised of 10 grades with the latter four grades falling under classified accounts which require specific loan loss provisioning by the BSP. The ICRRS rating is also used by PBB to establish the risk spread over its funding costs.

The Bank borrowers' ratings are reviewed and updated annually, depending on factors such as recent financial performance as well as industry and/or economic changes which can affect the risk profile of the account.

With respect to consumer loans, or vehicle financing, housing, and personal loans, each of these products have their own risk guidelines and approval processes. In addition, borrowers of consumer loans are segmented into risk classes, based on income level, prior credit performance, and other factors which are used to establish the borrowers' credit worthiness.

c. Credit Monitoring and Review

The Bank's Credit Review Group, which reports to PBB's Vice Chairman and COO, acts autonomously of the Bank's account officers and Credit Services Group, to review all existing loan exposures on a periodic basis. The Credit Review Group is responsible for identifying and monitoring existing or potentially problematic loans and assesses risks based on the borrower's condition, its industry or sector, and changes in the macroeconomic environment.

This group, the Bank's Asset and Liabilities Committee and the Bank's Risk Management Center, are all collectively responsible for reviewing the Bank's loan portfolio on a periodic basis, to assess existing or emerging concentration risks as well as ensuring that the portfolio is in compliance with both government regulations and directives of the Board of Directors.

2. Management of Market Risk

The Bank manages market risk, or the adverse effect on the Bank's financial performance and standing, brought about by changes in the market prices of its investments, through the operations of various units in PBB.

The Board of Directors has established policies and controls which define acceptable market risk limits and will continue to review and revise these policies and controls with changes in the market and economic environment. Such limits include value-at-risk ("VaR"), stop loss limits, and position limits for each instrument and investment type that the Bank invests in, earnings at risk ("EaR") limit for interest rate sensitive balance sheet accounts of the Bank.

The Bank's Asset and Liability Committee and the Risk Management Committee through PBB's Risk Management Center oversee compliance to these policies and controls and recommend any necessary changes to the policy limits that have been set.

The Risk Management Center is responsible for providing risk assessment reports based on stress and sensitivity tests, scenario analyses and maximum loss tests on PBB's investment portfolio. This group also helps in the development of risk reduction strategies especially during periods of market volatility.

a. Interest rate risk management

Interest rate risk is managed for both the Bank's trading portfolio and accrual portfolio. For the trading portfolio, the Bank employs a daily monitoring of the VaR which quantifies the potential maximum mark to market loss on the portfolio. The accrual portfolio, on the other hand, uses the EaR to measure the potential loss in the Bank's accrual income due interest rate movements. The Board of Directors establish the VaR and EaR limits which are reviewed periodically while the Asset and Liability Committee, and the Risk Management Committee through the Bank's Risk Management Center oversee compliance to these limits and recommend changes to the limits set.

VaR is an industry-accepted methodology in measuring market risk. The Bank uses the parametric approach to VaR wherein estimated loss is determined using the volatility of historical daily price changes and applying a confidence level factor. The Bank employs a 99 per cent confidence level, meaning losses are expected to exceed VaR estimates in one out of 100 trading days.

To quantify EaR, the Bank periodically assesses the gap between interest sensitive assets and interest sensitive liabilities, subdivided into tenor-buckets. Typically, a positive gap would indicate earnings improvement given an increase in interest rates; conversely, if interest sensitive assets are less than interest sensitive liabilities, the Bank's earnings would be adversely affected by increasing interest rates.

b. Foreign exchange risk management

The Bank faces foreign exchange risk generally from foreign currency deposits of customers, such as exporters and overseas Filipino workers, and foreign currency investment and trading positions held by the Bank. PBB manages its exposure to foreign currency fluctuations primarily through compliance with existing regulatory guidelines which establish foreign currency exposure limits. In accordance with regulation, at the end of each banking month, PBB reports its foreign currency exposure to the BSP.

In addition to regulatory compliance, the Bank assesses its daily exposure to foreign currency risk by establishing the gap between foreign currency denominated assets and foreign currency denominated liabilities, and calculating the VaR on this net position. The Board of Directors is responsible for establishing loss limits and other policies and controls to mitigate foreign exchange risk.

3. Management of Liquidity Risk

Liquidity risk is the risk to income and capital as a result of the Bank failing 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 the Treasury unit, and the 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, its Asset and Liabilities Committee and Risk Management Committee are responsible for the 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.

PBB's treasury is specifically responsible for managing the Bank's liquidity and liquid assets. Aside from compliance with the BSP's requirements for minimum cash reserves and liquid assets (as a proportion of total deposits), the treasury is also responsible for the Bank's primary sources of liquidity, including amounts due from the BSP, other financial institutions and other liquid assets. The treasury group also maintains a secondary source of liquid assets in the form of highly marketable investment securities that can be liquidated quickly. In addition, the treasury maintains credit facilities for unsecured borrowings and swaps with other financial institutions to ensure availability of funds.

The treasury is also responsible for the preparation of analyses to test the Bank's ability to generate funds during simulated emergencies and adverse market conditions. The treasury also updates on a weekly basis, funding sources and any concentration risk with respect to these sources, and detailed analyses of the Bank's liquid assets. Based on these analyses, the treasury, together with the Asset and Liabilities Committee and Risk Management Committee, make revisions to and recommendations on the Bank's liquidity policies and contingency and funding plans that are submitted to the Board of Directors.

4. Management of Operating Risks

PBB faces various operating risks in almost all aspects of its operations. Such risks can include failure of evaluation and approval processes, faulty transaction documentation, failure of computer, data storage, IT security, software systems, fraud, employee negligence, human error, an several events that can adversely affect financial performance and standing.

To mitigate operations risk, as a general policy, the Bank has standardized transaction, reviews and evaluation, security, approval and other business processes; these are contained in departmental or unit operating manuals disseminated to the various groups within the Bank. Employee training on these standards is conducted on a periodic basis. Review of these standardized processes is also conducted with appropriate improvements documented and implemented as necessary.

In addition, as a general policy, the Bank has adopted a multi-level approval process for all its financial transactions, with each level reviewing the transaction and its documentation before eventual approval. Dual signatories are always required for such transactions.

Also as a general policy, all critical business processes of the Bank are subject to internal review by an internal audit group reporting directly to the Board of Directors. In addition, the Bank's information system and its operations are also subject to operations and security audit conducted by the Bank's Risk Management Center. Regular training on information security and risk awareness is also conducted to mitigate this risk. Moreover, the Bank has policies on business continuity and disaster preparedness which are regularly tested to ensure that management could protect its stakeholders during untoward events.

a. Operating risk management in treasury operations

The Bank manages risks in its treasury operations, primarily by segregating personnel and responsibilities into backroom and front office operations. Both back room and front office have their own respective risk mitigating processes and controls; at the same time, back room personnel check and monitor front office trades to ensure compliance with controls and policies.

Within the front office operations, operating risks are addressed through the compliance with documented processes and controls for dealing conventions, counter-party documentation and accreditation, transaction entry and reporting, dealing limits, and transaction level and authority of each trader.

All transaction settlements are handled by back room operations independently of front office involvement. In addition, back room operations are responsible for dealing with and ascertaining transaction confirmation and reconciliation with PBB's counter-parties, collection and recording of payments, securities transfer documentation; requirements of the foregoing are all identified in operating manuals and other documents which standardize these processes.

PBB's treasury unit submits periodic reports to the Asset and Liability Committee who is tasked to review the Bank's investment portfolio, liquidity position and market risks. The Asset and Liability Committee also reviews all compliance and/or exception reports and together with the Risk Management Center, makes recommendations with respect to potential changes in controls, limits and policies.

b. Operating risk management in branch operations

Operating risks in branch operations is mitigated primarily through the dissemination and strict implementation of branch operations manuals which are periodically reviewed and updated. Branch officers and personnel are also required to undergo initial and supplementary training programs so that all are familiar with the policies, processes, controls and other matters contained in the operations manual.

Further control in branches is achieved through the segregation of duties where no one individual has absolute control and authority over branch transactions. The manual also contains approval and authority limits of branch officers.

Branch operations are periodically audited to ensure compliance and the level of compliance is a key measure in the performance evaluation of branch officers.

c. Anti-Money Laundering Controls

To comply with the Anti-Money Laundering Act ("AMLA"), the Bank has imposed strict processes that require all account officer and each business unit dealing with the Bank's customers to ensure the accuracy and validity of information of each individual and business entity seeking to transact with the Bank. Each business unit is also required to monitor account activities and assess whether the transactions are consistent with the profile of the customer and/or business and immediately report any suspicious transaction or series of transactions to the Compliance Office for evaluation..

In compliance with the AMLA, the Bank reports to the Anti-Money laundering Council ("AMLC") all deposit transactions Bank in excess of Php500,000 each banking day. The Bank also submits its "Suspicious Transactions Report" when it perceives that customer transactions may involve money-laundering activities.

PBB's Unit Compliance Coordinators and Compliance Office routinely conduct compliance tests to identify any lapses in anti-money laundering controls while the Internal Audit validates the compliance testing reports of these units

Risk Management Center and Internal Audit

PBB has two (2) key risk management units that report directly to the Board of Directors via their respective committees. The Internal Audit unit is responsible for audits of all business units within the Bank with financial audits conducted on a quarterly basis and a risk based audit conducted on a periodic basis depending on the business unit's risk score (i.e. degree of priority depending on the unit's risk units as well as results of previous audits and reviews).

The Internal Audit group reports directly to the Audit Committee whose yearly activities are identified in an annual audit plan, approved by the Audit Committee and the Board of Directors.

The Risk Management Center is the second risk management unit that reports to the Board of Directors via the Risk Management Committee. The Risk Management Center is headed by the CRO whose mandate is to identify and measure various risks that PBB faces provide recommendations for risk mitigating policies, controls, procedure, reports and analyses and upon approval, to ensure the implementation of such. The Risk Management Center is also responsible for technology and IT security.

USE OF PROCEEDS

PBB will use most of the net proceeds of the Offer or approximately Php3,008.63 million to finance the Bank's lending activities and also, to a lesser extent, to fund the acquisition of investment securities.

In addition, approximately Php400 million will be allocated to finance capital expenditure requirements in connection with its branch network expansion program, including the acquisition of new branch banking licenses, the development and implementation of IT infrastructure and applications projects, details of which, listed in the order of priority and estimated time of completion, are as follows:

Project	Particulars	Estimate Cost	Estimate Time of Completion
Open five (5) branches in Restricted Areas	Opening of additional branches in: Makati Quezon City Mandaluyong City Pasig City Pasay City	Php10 million per branch or total of Php50 million	1st quarter of 2013
Open ten (10) provincial branches	Opening of additional branches in: 1) Zamboanga, Tuguegarao, Cauayan (Isabela), Butuan, Tagum, (Davao) 2) Tacloban(Leyte)) Kalibo, Marikina, Pateros and Caloocan	Php5.0 million per branch or a total of Php50 million	For item 1) 2nd quarter of 2013 For item 2) 3rd quarter of 2013
Improvement of IT infrastructure system	CASA/GL Integrated System Treasury System Loan Management System Upgrade of Hardware/Servers etc.	Php100 million	4th quarter of 2013
Acquisition of other branch licenses	Acquisition of branch licenses, prospectively in the following areas: CAMANAVA, Vis-Min Area, Central Luzon and Southern Luzon	Php200 million	4th quarter of 2013

The breakdown of the Bank's budgets for new branches to be opened in restricted and unrestricted areas is as follows:

Details	Branch (restricted area)	Branch (unrestricted area)
Construction/renovation of leased premises	Php7 million	Php3 million
Furniture, fixtures, computers and other equipment	Php1 million	Php1 million
Cabling, permits, signage, advertisements and organizational costs	Php2 million	Php1 million
TOTAL	Php10 million	Php5 million

Details of the IT infrastructure projects are as follows:

Project Details	Budget	Estimated Timetable
Main data center and disaster recovery site equipment refresh (acquire data center virtualization technology for enterprise wide computing and branch expansion.)	Php20 million	1st quarter 2013
Core banking improvements: – general ledger on-line upgrade on-line signature and photo imaging module add-on – loans management system upgrade	Php15 million	1st quarter 2013 to end - 2013
Customer centricity – customer information file	Php4 million	1st quarter 2013 to end-2013.
Business process reengineering		
– automation of trust operations (IMA/TOFA)*	Php2 million	1st quarter 2013
– automation of treasury operations (front/mid/back)	Php30 million	1st half 2013 to end 2013
– new AMLA system	Php0 million	2nd half 2013
Banking channels – corporate electronic banking	Php20 million	2nd half 2013 to 1st half 2014
Performance management/data analytics	Php10 million	within 2013
Total	**Php100 million**	

Notes: All project starts subject to conclusion of agreements with respective providers and bank's project teams.
** Project initiatives which are on-going and expected to wrap up early 2013*

The proposed use of proceeds described above represents the Bank's best estimate of the use of the net Offer proceeds. The actual amount and timing of disbursement of the net proceeds from the Offer based on the uses stated above will depend on factors such as changing market conditions or new information regarding the cost or feasibility of PBB's expansion projects. PBB's cost estimates may change as it develops its plans, and actual costs may be different from its budgeted costs. To the extent that the net proceeds from the Offer are not immediately applied to the above purposes, PBB will invest the net proceeds in short term demand deposits and money market placements. In the event of any deviation, adjustment or reallocation in the planned use of proceeds, the Company will secure the approval of its Board of Directors for such deviation, adjustment or reallocation and promptly make the appropriate disclosures to the Philippine SEC and the PSE. The Company shall regularly disclose to the PSE, through the Online Disclosure System ("ODiSy"), any disbursements from the proceeds generated from the Offer.

In the event that the net Offer proceeds shall not be sufficient to finance the branch network expansion program and improvement of its IT infrastructure system, which are the priority projects of the Bank, the Bank shall use its income from operations to complete the said projects.

No portion of the net proceeds of the Offer will be used to repay outstanding obligations of the Bank to the Joint Lead Underwriters and Bookrunners or Issue Manager, if any. Similarly, no portion of the net Offer proceeds shall be used to reimburse any officer, director, employee or shareholder for services rendered, assets previously transferred, money loaned or advanced. The Joint Lead Underwriters and Bookrunners will receive a transaction fee from the Bank equivalent to two and one-half per cent (2.5%) of the gross proceeds from the sale of the Offer Shares. This is inclusive of the amounts to be paid to the participating underwriters and trading participants, where applicable.

Based on the Offer Price of Php31.50 per Offer Share, PBB estimates that the net proceeds from the Offer will be Php3,008.63 million, calculated as shown in the table below:

Total gross proceeds from the Primary Offer	……………………	Php3,192.00 million
Expenses:		
Underwriting and selling fees for the Offer Shares	……………………	Php79.80 million
Taxes, SEC & PSE filing and processing fees	……………………	Php74.41 million
Estimated professional fees and other offer costs	……………………	Php29.17 million
Total Expenses	……………………	Php183.38 million
Net Proceeds from the Offer	……………………	Php3,008.62 million

PLAN OF DISTRIBUTION

The 101,333,400 Offer Shares shall be offered, through the Joint Lead Underwriters and Bookrunners, the Co-lead Underwriter, and the Participating Underwriters, to the general public including institutional investors and high net worth individuals. In the event that there are Offer Shares that remain unsubscribed, the Joint Lead Underwriters and Bookrunners, the Co-lead Underwriter, and the Participating Underwriters shall subscribe to the balance pursuant to the terms and conditions of the Underwriting Agreement between the Bank and the underwriting syndicate.

The Bank shall pay the Joint Lead Underwriters and Bookrunners a pre-agreed underwriting and selling commission upon receipt by the Bank of the Offer proceeds pursuant to the provisions in the Underwriting Agreement. The Joint Lead Underwriters and Bookrunners will cede to the Participating Underwriters and selling agents, if any, their corresponding respective underwriting fees and selling commissions.

Underwriting Commitments

The Offer will be underwritten at the Offer Price and in connection therewith, an Underwriting Agreement will be entered into on or before the commencement of the Offer, between the Bank and the Underwriters, pursuant to which the Joint Lead Underwriters and Bookrunners has firmly committed, to subscribe for, or procure subscribers for, or to purchase, or to procure purchasers for the 101,333,400 Shares to be offered. The Underwriting Agreement is subject to certain conditions and each is respectively subject to termination by the Joint Lead Underwriters and Bookrunners if certain circumstances, including *force majeure*, occur on or before the time at which the Shares are listed on the PSE. In addition, this agreement is conditional, *inter alia*, on the Offer Shares being listed on the PSE on or before the stipulated date or such date as the Joint Lead Underwriters and Bookrunners may agree.

Under the terms and conditions of the Underwriting Agreement, the Bank has agreed, *inter alia*, to indemnify the Joint Lead Underwriters and Bookrunners in respect of any breach of warranty by the Company contained therein.

Allocation to the Trading Participants of the PSE and Local Small Investor Program

Pursuant to the rules of the PSE, the Company will make available 20,269,200 Offer Shares comprising 20 per cent of the Offer for distribution to the trading participants of the PSE. The total number of Offer Shares allocated to the trading participants will be distributed following the procedures indicated in the implementing guidelines for the Offer Shares to be distributed by the PSE.

Trading participants who take up the Offer Shares shall be entitled to a selling fee of one per cent (1%) of the Offer Shares taken up and purchased by the relevant trading participant. The selling fee, less a withholding tax of 10 per cent, will be paid to the trading participants within five (5) banking days after the Listing Date.

The trading participants of the PSE may be allowed to subscribe for their dealer accounts provided that, if they opt to sell the Offer Shares to the clients during the Offer period, it must be at a price not higher than the Offer Price per share. Likewise, the trading participants are prohibited from selling the Offer Shares during the period after the Offer period and prior to the Listing Date.

The balance of the Offer Shares allocated but not taken up by the trading participants will be distributed among the underwriters.

A total of 10,133,400 Offer Shares, or 10 per cent of the Offer, shall be made available to Local Small Investors. Local Small Investors is defined as a subscriber to the Offer who is willing to subscribe to a maximum of 700 Offer Shares under the LSI program. Should the total demand for the Offer Shares in the LSI program exceed the maximum allocation, the Joint Lead Underwriters and Bookrunners shall allocate the Offer Shares by balloting.

The Joint Lead Underwriters and Bookrunners

Founded in 1972, First Metro Investment Corporation is a leading investment bank in the country with over 40 years of service in the development of the Philippine capital markets. It is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country. It provides investment banking services through its strategic business units – Investment Banking, Treasury and Investment Advisory. It holds an aggregate 70% market share in peso-denominated corporate and government debt transactions. With assets of around P80 billion as of end 2012, it is the largest investment bank in the country today. First Metro has been ranked among the Top 11 Philippine Companies and among the Best ASEAN 100 Companies based on Relative Wealth Added Index by New York-based management consulting firm, Stern Stewart & Co. In 2009 and 2011, First Metro was awarded the Best Bond House in the Philippines by Finance Asia. In the last four years, First Metro was also awarded the Best Bond House by The Asset Magazine of Hong Kong. In 2012, it was recognized by Finance Asia as the Best Equity House in the Philippines.

SB Capital Investment Corporation ("SB Capital") is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital provides a wide range of investment banking services including financial advisory, underwriting of equity and debt securities, project finance, privatizations, mergers and acquisitions, loan syndications and corporate advisory services. SB Capital is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. As of December 31, 2011, its total assets amounted to Php598.2 million and its capital base amounted to Php572.2 million. It has an authorized capital stock of Php1.0 billion of which approximately Php350.0 million represents its paid-up capital. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major equity and debt issues, both locally and internationally.

The Joint Lead Underwriters and Bookrunners have no other direct or indirect interest in the Bank or in any securities thereof, including options, warrants, or rights thereto. Furthermore, it does not have any relationship with the Bank or with the Yao Family other than as the Joint Lead Underwriters and Bookrunners for the Offer.

The Joint Lead Underwriters and Bookrunners also have no direct relations with the Bank in terms of ownership by either their respective major stockholders, and have no right to designate or nominate any member of the PBB's Board of Directors.

There is no contract or arrangement existing between PBB, the Joint Lead Underwriters and Bookrunners, or any other third party whereby the Joint Lead Underwriters and Bookrunners may return any unsold securities from the Offer.

Furthermore, there are no Offer Shares which are designated to be sold to specified persons.

Underwriters' Compensation

The underwriting and selling fees to be derived by the Joint Lead Underwriters and Bookrunners from the Offer shall be based on a percentage of the gross proceeds of the Offer, which shall be inclusive of amounts to be paid to other participating underwriters and selling agents.

All reasonable out-of-pocket expenses to be incurred by the Joint Lead Underwriters and Bookrunners in connection with the Offer shall be for the account of PBB.

DIVIDEND POLICY

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 per cent 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 the date of this Prospectus, 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 is subject to BSP and SEC approvals. 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.

DETERMINATION OF THE OFFER PRICE

The Offer Price per share of Php31.50 was determined based on a book building process and discussions between PBB and the Joint Lead Underwriters and Bookrunners. Since the common shares have not been listed on any stock exchange, there has been no market price for the common shares derived from day to day trading.

Among the factors considered in determining the Offer Price are the Banks financial performance and standing, the level of demand from institutional investors, dilution to existing shareholders, overall market conditions at the time of the Offer and the market price of listed comparable companies.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth PBB's deposit liabilities and interest-bearing liabilities, equity and capitalization as of September 30, 2012, and as adjusted to reflect the sale of the Offer Shares. For the purposes of making adjustments to the table below with respect to the Offer, PBB has estimated that it will receive net proceeds of Php3,008.63 million from the sale of primary Offer Shares in the Offer after deducting an estimated aggregate amount of underwriting commissions, discounts and fees and certain other estimated expenses PBB expects to incur in connection with the Offer. The actual underwriting commission, discounts, fees and other Offer-related expenses may vary from the estimated amounts. The estimated amounts used to determine the estimated net proceeds are presented in this Prospectus for convenience only. The table should be read in conjunction with PBB's consolidated financial statements and the notes thereto, included in this Prospectus beginning on page 132. Other than as described below, there has been no material change in PBB's capitalization since September 30, 2012.

In Php Millions	Actual as of 09/30/2012[1]	Pre-Offer Adjustments[2]	IPO Adjustments[2]	Pro Forma Post Offer
Deposit liabilities	23,006.04			23,006.04
Bills payable	897.00			897.00
Total liabilities	23,903.04			23,903.04
Capital Funds				
Common Stock	420.00	2,000.00[a]	1,013.33	3,433.33
Preferred Stock	620.00	(2,100.35)[b]		620.00
Surplus	3,109.94			1,009.59
APIC			1,995.29	1,995.29
Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	266.24			266.24
Total capital funds	4,416.18			7,324.46
Total capitalization and indebtedness	28,319.22		3,008.63	31,227.50

Notes:

1. *Based on audited financial statements as of September 30, 2012*
2. *Equity adjustments pre-Offer include the following: (a) issuance of 200,000,000 new common shares arising from the declaration of stock dividends worth Php2 billion; and (b) payment of Php100.35 million cash dividends to the preferred shareholders.*

DILUTION

PBB will offer 101,333,400 Offer Shares to the public at the Offer Price, which will be substantially higher than the adjusted book value per share of the outstanding Shares, which will result in an immediate material dilution of the new investors' equity interest in PBB. The tangible book value of PBB, based on its audited financial statements as of September 30, 2012 and taking into account the adjustments discussed below, was Php3,399.45 million or Php14.05 per Share. The book value represents the amount of PBB's total assets less the sum of its liabilities and less intangible assets[1]. PBB's tangible book value per share is computed by dividing the tangible book value by the 242,000,000 issued and outstanding Shares.[2]

Dilution in pro-forma book value per share to investors of the Offer Shares represents the difference between the Offer Price and the pro-forma book value per Share immediately following the completion of the Offer.

PBB's net tangible book value per Share pre-Offer will be adjusted for the following events: (1) Issuance of 200,000,000 new common shares in connection with the declaration of stock dividends amounting to Php2 billion and (2) cash dividends amounting to Php100.35 million to the preferred shareholders.

After giving effect to the foregoing adjustments and to an increase in PBB's total assets to reflect the receipt of the net Offer proceeds of approximately Php3.01 billion from the sale of 101,333,400 Offer Shares at an Offer Price of Php31.50 per Offer Share, PBB's book value will be approximately Php6,408.08 million or Php18.66 per Share. This represents an immediate increase in book value of Php4.62 per share to existing shareholders and an immediate decrease of Php12.84 per share to investors of the Offer Shares.

The following table illustrates dilution on a per Share basis based on an Offer Price of Php31.50 per Share

Offer Price per Offer Share	Php31.50
Pro forma Book Value per Share as of September 30, 2012[3]	Php14.05
Increase in Book Value per Share attributable to the Offer Shares	Php4.62
Pro forma Book Value per Share after the Offer	Php18.66
Decrease in Book Value per Share to Investors in the Offer Shares	Php12.84

The following table sets forth the shareholdings outstanding of existing and new shareholders of PBB immediately after completion of the Offer of up to 101,333,400 Shares:

Existing Shareholders	242,000,000
New investors	101,333,400
Total	343,333,400

Immediately after the Offer, the 101,333,400 Offer Shares will comprise 29.51 per cent of the issued and outstanding capital stock in the Bank.

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[1] *Intangible assets are composed of goodwill (Php49.88 million) arising from the merger with Kabalikat Rural Bank and the branch licenses acquired from Prime Savings Bank (Php246.50 million).*

[2] *Total number of issued and outstanding common shares used to compute per share values (pre-Offer) is 242 million, at a par value of Php10 per share, composed of 42 million issued and outstanding shares as of the date of this Prospectus and the prospective issuance of 200 million new common shares arising from the declaration of stock dividends*

[3] *Pro forma book value per share takes into account adjustments in the Bank's book value and number of issued and outstanding common shares on account of stock and cash dividend declarations.*

SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables set forth selected financial information for PBB and should be read in conjunction with the PBB's financial statements, audited by Punongbayan & Araullo including the notes thereto, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this Prospectus. The following data is qualified in its entirety by reference to all of that information.

Statement of Income Data

In Php Millions	For the years ended December 31			For the 9-month period ended September 30	
	2009 (audited)	2010 (audited)	2011 (audited)	2011 (audited)	2012 (audited)
INTEREST INCOME					
Loans and other receivables	702.08	930.71	963.88	762.78	911.13
Investment securities	261.36	382.96	615.38	460.69	268.82
Securities purchased under reverse repurchase agreements	-	30.14	59.44	25.52	45.94
Interbank loans receivable	32.43	-	-	-	-
Due from Bangko Sentral ng Pilipinas and other banks	7.88	15.04	19.28	12.30	14.22
	1,003.75	1,358.84	1,657.97	1,261.28	1,240.11
INTEREST EXPENSE					
Deposit liabilities	313.48	400.27	536.22	392.95	446.97
Bills payable & other liabilities	20.87	48.63	36.24	34.9	15.07
Total	334.35	448.90	572.46	427.85	462.04
NET INTEREST INCOME	669.40	909.95	1,085.51	833.43	778.07
IMPAIRMENT LOSSES	65.47	199.32	50.00	38.00	68.26
NET INCOME AFTER IMPAIRMENT LOSSES	603.93	710.63	1,035.51	795.43	709.81
OTHER INCOME					
Trading gains – net	55.07	608.21	594.88	383.18	630.24
Service charges, fees and commissions	88.08	113.69	65.54	49.25	47.39
Miscellaneous	50.93	58.81	102.53	76.71	85.66
	194.09	780.72	762.95	509.14	763.29
OTHER EXPENSES	533.80	805.32	951.93	661.47	801.77
PROFIT BEFORE TAX	264.22	686.02	846.54	643.09	671.33
TAX EXPENSE	46.43	2.74	99.56	93.37	47.23
NET PROFIT	217.79	683.28	746.97	549.72	624.10
OTHER COMPREHENSIVE INCOME Fair value gains in available-for-sale securities during the year – net	14.71	66.07	433.89	133.92	127.86
Fair loss recycled to profit or loss	0		28.03	2.69	(383.81)
	14.71	66.07	461.92	136.61	(255.66)
TOTAL COMPREHENSIVE INCOME	232.50	749.35	1,208.89	686.33	368.43

Statement of Financial Position Data

In Php Millions	For the years ended December 31			For the 9-month period ending September 30	
	2009 (audited)	2010 (audited)	2011 (audited)	2011 (audited)	2012 (audited)
ASSETS					
Cash and other cash items	192.83	243.97	297.08	208.57	243.34
Due from Bangko Sentral ng Pilipinas	207.56	383.66	1,119.32	915.26	1,270.63
Due from other banks	202.99	385.01	630.69	301.15	1,138.68
Financial assets at fair value through profit or loss	-	-	207.74	808.14	1,832.12
Available-for-sale securities	3,245.69	6,623.02	5,710.86	5,146.06	3,779.67
Loans and other receivables - net	11,820.42	13,369.67	16,704.66	15,483.46	19,621.17
Bank premises, furniture, fixtures and equipment – net	313.94	320,37	340.82	328.04	381.71
Investment properties - net	306.18	282.53	397.39	384.59	438.38
Other resources - net	430.04	506.99	476.25	398.10	956.57
TOTAL ASSETS	16,719.63	22,115.22	25,884.82	23,973.37	29,662.27
LIABILITIES AND EQUITY					
Deposit liabilities					
Demand	214.59	403.36	318.44	238.22	354.07
Savings	7,828.93	8,870.64	8,733.28	8,232.71	8,586.37
Time	4,639.24	8,313.40	12,143.27	11,258.44	14,065.60
Total Deposit Liabilities	12,682.76	17,587.41	21,194.99	19,729.37	23,006.04
Bills payable	1,214.71	1,213.00	121.48	98.67	897.00
Accrued expenses and other liabilities	1,107.66	850.97	895.61	995.16	1,343.05
TOTAL LIABILITIES	15,005.13	19,651.38	22,212.08	20,823.20	25,246.09
CAPITAL FUNDS	1,714.50	2,463.84	3,672.74	3,150.17	4,416.18
TOTAL LIABILITIES AND CAPITAL FUNDS	16,719.63	22,115.22	25,884.82	23,973.37	29,662.27

Statement of Cash Flows Data

In Php Millions	For the years ended December 31			For the 9-month period ending September 30	
	2009 (audited)	2010 (audited)	2011 (audited)	2011 (audited)	2012 (audited)
Net cash provided by (used in) operating activities	(1,346.79)	4,315.67	2,361.17	1,852.28	(3,933.00)
Net cash used in investing activities	(183.29)	(3,352.70)	1349.8	1,594.40	1,649.96
Net cash provided by (used in) financing activities	932.24	(1.71)	1091.52	(1,114.33)	1,150.52

Key Performance Indicators and Ratios

	For the years ended December 31			For the 9-month period ending September 30	
	2009	2010	2011	2011	2012
Tier 1 Capital Adequacy Ratio[(1)]	14.49%	21.64%	25.41%	25.82%	21.01%
Total Capital Adequacy Ratio[(2)]	16.34%	22.77%	26.44%	26.91%	21.92%
Return on average assets[(3)]	1.50%	3.50%	3.50%	2.39%	2.25%
Return on average equity[(4)]	14.18%	32.70%	24.30%	19.58%	15.43%
Net interest margin[(5)]	4.90%	5.00%	4.80%	3.84%	2.99%
Cost-income ratio[(6)]	44.56%	37.64%	39.32%	37.36%	40.02%
Loans to deposits ratio[(7)]	75.24%	63.75%	64.21%	61.32%	76.78%
Total non-performing loans to total gross loans[(8)]	5.21%	2.81%	3.59%	6.19%	4.54%
Allowance for impairment on loans to total gross loans [(9)]	2.70%	4.35%	3.61%	4.35%	3.15%
Allowances for impairment on loans to total NPLs[(10)]	51.82%	154.79%	100.61%	70.32%	69.39%
Loans-to-deposits ratio (BSP formula)[(11)]	111.12	97.43	106.67	102.72	104.58
Total non-performing loans to total gross loans (BSP formula)[(12)]	4.90	2.55	2.99	4.93	4.3

(1) *Tier 1 capital divided by total risk-weighted assets as disclosed in the BSP report of the Bank for the relevant period.*
(2) *Total qualifying capital divided by total risk-weighted assets as disclosed in the BSP report of the Bank for the relevant period.*
(3) *Net income (loss) divided by average total assets for the periods indicated. Average assets is equivalent to total assets at the beginning and end of the period divided by two.*
(4) *Net income (loss) divided by average total equity for the periods indicated. Average equity is equivalent to total equity at the beginning and end of the period divided by two.*
(5) *Net interest income divided by average interest-earning assets. Interest earning assets include Due from BSP, due from other banks, interbank loans and receivables, securities purchased under a resale agreement, Average interest-earning assets is equivalent to average interest-earning assets at the beginning and end of the period divided by two.*
(6) *Total operating expenses divided by the sum of interest income and other income.*
(7) *Gross loans and discounts (before unearned discount and impairment) from customers divided by total deposits.*
(8) *Total NPLs divided by total gross loans and discounts (before unearned discount and impairment).*
(9) *Total allowance for impairment and credit losses divided by total gross loans and discounts (before unearned discount and impairment).*
(10) *Total allowance for impairment and credit losses divided by total NPLs.*
(11) *Loans and discounts (gross) + Securities purchased under reverse repurchase agreements divided by Total deposits (balance 6 months prior) less FCDU deposits (balance 6 months prior) less Cash in bank (balance 6 months prior) less reserve requirement (for peso deposits 6 months prior).*
(12) *Non-performing loans divided by Loans & discounts (gross) + Securities purchased under reverse repurchase agreements. Non-performing loans is computed as the sum of past due loans and items under litigation.*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of PBB's recent financial results should be read in conjunction with the auditor's reports and PBB's financial statements and notes thereto contained in this Prospectus and the section entitled "Summary Financial and Operating Information." PBB's audited financial statements as of and for the years ended December 31, 2009, 2010 and 2011 and for the nine-month period ending September 30, 2011 and 2012 were audited by Punongbayan & Araullo and prepared in compliance with PFRS.

This discussion contains forward-looking statements and reflects the current views of PBB with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" and elsewhere in this Prospectus.

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 71branches and 35 ATMs located all over the country. 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 December 31, 2011, the Bank is ranked sixth, and seventh in terms of deposits out of a total of 92 CTB members.

As of September 30, 2012, the Bank's Tier 1 capital adequacy ratio and total capital adequacy ratio was 21.01 per cent and 21.92 per cent, respectively. Return on assets and return on equity were 2.25 per cent and 15.43 per cent, respectively for the nine-month period ended September 30, 2012.

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 and for the nine-month period ending September 30, 2012:

Performance Indicator	2009	2010	2011	September 2012
ROAE	14.18%	32.70%	24.30%	15.43%
ROAA	1.50%	3.50%	3.50%	2.25%
CAR	16.34%	22.77%	26.44%	21.92%
Loans- Deposit Ratio (BSP Formula)	111.12	97.43	106.67	104.58
NPL Ratio (BSP Formula)	4.90	2.55	2.99	4.30

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 elsewhere in this Prospectus.

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 9-month period ended September 30, 2012 compared with the 9-month period ended September 30, 2011

Interest Income

PBB's total interest income decreased by 1.71 per cent to Php1,240.11 million for the nine-month period ended September 30, 2012 from Php1,261.28 million for the same period in the previous year. The decline in total interest income was due primarily to lower interest income from investment securities which decreased to Php268.81 million from Php460.69 million over the period in review. This decrease in income from investment securities can be attributed to general market conditions marked by lower returns from investment securities which ranged from five per cent (5%) to nine per cent (9%) in 2012 compared to a range of 6.3 per cent to 11.4 per cent p.a. in the same period of 2011. As of September 30, 2012, PBB held AFS securities of Php3.77 billion compared to Php5.15 billion as of end-September in 2011. PBB sold a total volume of Php11.54 billion in AFS securities in 2012 and Php9.57 billion in 2011.

Interest income from loans and receivables, on the other hand, grew by 19.74 per cent to Php911.13 million from Php762.77 million over the period in review as total loans and receivables increased to Php19.62 billion as of September 2012 from Php15.48 billion in the previous year.

Interest Expense

Total interest expense increased 7.99 per cent to Php462.04 million for the nine-month period year ended September 30, 2012 from Php427.86 million for the same period in 2011 primarily due to an increase in the levels of deposit liabilities. In 2012, total deposit liabilities of the Bank grew by 15.40 per cent to Php22.77 billion from Php19.73 billion in 2011.

Net Interest Income

Net interest income decreased 6.64 per cent to Php778.07 million in 2012 from Php833.42 million in 2011 due to the decline in interest income coupled with the increase in interest expense for the period.

Impairment Losses

Impairment losses increased 79.63 per cent to Php68.26 million for the nine-month period ended September 30, 2012 from Php38.00 million for the same period in 2011. The increase in impairment losses was a result of additional provisioning for specific accounts.

Other Income

PBB's other income increased 49.91 per cent to Php763.29 million in 2012 from Php509.14 million in 2011 as the Bank recognized gains on certain investment positions. As of September 30, 2012, PBB generated Php630.28 million in trading gains which represented a 64.23 per cent increase over trading gains of Php383.76 million generated in the same period of the previous year. Miscellaneous income, composed of fees, commissions and other charges, increased 11.67 per cent to Php85.66 million in 2012 from Php76.71 million in the previous year.

Other Expenses

Other Expenses increased by 21.21 per cent to Php801.77 million for the nine-month period ended September 30, 2012 from Php661.47 million for the same period in 2011. The increase in Other Expenses was primarily due to higher rent expense arising from the Bank's branch expansion program, an increase in manpower costs associated with increase in bank personnel due to the new branches and higher taxes and licenses on account of an increase in gross receipts tax as transaction volumes grew.

Transportation and travel expenses likewise grew, by 22.26 per cent over the period in review, due primarily to travel expenses of branch personnel based outside Metro Manila who were required to train at the head office as well as fuel costs arising from aggressive marketing efforts of head office and branch personnel.
Tax Expense
Tax expense for the period decreased 49.43 per cent to Php47.22 million compared to Php93.37 million for the same period in 2011. In 2012, the income component which was tax exempt increased as a percentage of total income resulting in a lower tax expense for the nine-month period ended September 30, 2012.

Net Profit
As a result of the foregoing factors, PBB's net profit increased 13.53 per cent to Php624.10 million for the nine-month period ended September 30, 2012 from Php549.72 million in 2011.

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

Revenues and Other Income

Interest Income

PBB's total interest income increased by 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 due primarily to higher income from investment securities and loans and other receivables. This growth can be attributed to the increase in interest income from investment securities which grew to Php615.38 million from Php382.95 million. Interest income from loans and receivables likewise grew to Php936.88 million from Php930.71 million.

Interest Expense

Interest expense likewise increased 27.5 per cent to Php572.46 million for the year ended December 31, 2011 from Php448.90 million for the year ended December 31, 2010 primarily due to higher levels of deposits. For the year 2011, total deposit liabilities of the Bank grew by 20.5 per cent to Php21.19 billion from Php17.59 billion in 2010.

Net Interest Income

Net interest income increased 19.3 per cent to Php1,085.51 million for 2011 from Php909.9 million in 2010 due to an increase in interest income which more than offset higher interest expenses paid to deposit liabilities.

Impairment Losses

Impairment losses decreased 74.5 per cent to Php50 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 2.28 per cent to Php762.95 million for the year ended December 31, 2011 from Php780.72 million for the year ended December 31, 2010. This was primarily due to the decline in service fees, charges and commissions mainly attributable to the changes in check clearing rules implemented in January 2011.

Other Expenses

PBB’s Other Expenses increased by 18.20 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 higher rent expense arising from the Bank’s branch expansion program, and the increase in manpower costs associated with the opening of new branches. Miscellaneous expenses, composed primarily of legal services, supplies, communication, BSP banking fees and the amortization of IT investments, grew by 40.10 per cent during the year. Moreover, the Bank acquired software licenses during the period which were amortized for a period of five (5) years.

Tax Expense

Tax expense for the year increased to Php99.56 million compared to Php2.74 million for the year ended December 31, 2010. This increase was partially due to improved business performance which increased taxable income. A significant factor for the increase in tax expense is the effect of the decline in the provision for impairment losses which declined to Php50.00 million from Php199.32 million over the period in review.

Net Profit

As a result of the foregoing factors, PBB’s net profit increased 9.3per cent to Php747.0 million for the year ended December 31, 2011 from Php683.3 million in 2010.

<u>*For the year ended December 31, 2010 compared with the year ended December 31, 2009*</u>

Revenues and Other Income

Interest Income

PBB's interest income increased 35.38 per cent to Php1,358.84 million for the year ended December 31, 2010 from Php1,003.75 million for the year ended December 31, 2009 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 34.26 per cent to Php448.90 million for the year ended December 31, 2010 from Php334.4 million for the year ended December 31, 2009 primarily as a result of higher deposit liabilities brought about by the growth in deposits from Php12,682.76 million to Php17,587.41 million over the period in review.

Net Interest Income

Net interest income increased 35.93 per cent to Php909.5 million for 2010 from Php669.4 million in 2009 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 more than doubled to Php199.3 million for the year ended December 31, 2010 from Php65.5 million for the year ended December 31, 2009 primarily due to the impairment of specific loan accounts

Other Income

PBB's other income increased 302.25 per cent to Php780.72 million for the year ended December 31, 2010 from Php194.1 million for the year ended December 31, 2009 primarily due to a significant increase in trading gains as the Bank recognized gains on certain investment positions.

Other Expenses

PBB's Other Expenses increased by 50.87 per cent to Php805.32 million for the year ended December 31, 2010 from Php533.8 million for the year ended December 31, 2009, 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 decreased to Php2.74 million compared to Php46.4 million for the year ended December 31, 2009 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 2009, only 26.42 per cent of gross revenues were subject to final tax or were tax-exempt. Impairment losses also contributed to the decline in tax expense in 2010.

Net Profit

As a result of the foregoing factors, PBB's net income increased 213.74 per cent to Php683.3 million for the year ended December 31, 2010 from Php217.79 million in the previous year.

Liquidity

For the nine-month period ended September 30, 2012 and for the years ended December 31, 2009, 2010 and 2011, the Bank's principal sources of liquidity were funds from operations including deposits. As of September 30, 2012, the Bank had cash and cash equivalents of Php3,668.65 million.

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 this Offer. 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			For the 9-month period ending Sept. 30	
	2009 (audited)	2010 (audited)	2011 (audited)	2011 (audited)	2012 (audited)
Cash and cash equivalents, beginning of the year	1,818.22	1,220.37	2,181.64	2,181.64	4,801.09
Net cash provided by (used in) operating activities	(1,346.79)	4,315.67	2,361.17	1,852.28	(3,933.00)
Net cash provided by (used in) investing activities	(183.29)	(3,352.70)	1,349.8	1,594.40	1,649.96
Net cash provided by (used in) financing activities	932.24	(1.71)	(1,091.52)	(1,114.33)	1,150.52
Net increase (decrease) in cash and cash equivalents	(597.84)	961.26	2,619.45	2,332.35	(1,132.44)
Cash and cash equivalents, end of the year	1,220.37	2,181.64	4,801.09	4,513.99	3,668.65

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 September 30, 2012, net cash used in operating activities amounted to Php3,932.91 million. During the period, the Bank increased its loans and receivables by Php4,824.34 million while assets at FVPL grew by Php1,624.38 million. On the other hand, deposit liabilities grew by Php1, 811.05 million. As of the years ended December 31, 2011 and 2010, cash flow from operating activities was Php2,361.17 million, Php4,315.67 million as of December 31, 2011 and 2010, respectively. In 2009, net cash used in operating activities amounted to Php1,346.79 million as the Bank's loans and other receivables grew by Php4,135.42 million.

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 September 30, 2012, net cash flow from investing activities amounted to Php1,649.96 million, with funds generated mainly from the sale of available for sale securities of Php1,675.54 million. In 2011, cash flow from investing activities amounted to Php1,349.84 million with funds generated primarily by the sale of available for sale securities generating Php1.37 billion in funds. In the years 2010 and 2009, cash flow used in investing activities amounted to Php183.29 million and Php3,352.70 million, respectively. Funds were primarily used for the purchase of available-for-sale securities of Php169.88 million and Php3.332.15 million in 2009 and 2010, respectively.

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 September 30, 2012, PBB recorded net cash provided by financing activities of Php1,150.52 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, 2010 and 2009, cash flows used in financing activities amounted to Php1,091.52 million, Php1.71 million, where funds were used primarily to settle bills payables. In 2009, cash flows provided by financing activities amounted to Php932.24 million composed of proceeds from the issuance of capital stock and increase in bills payable.

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			For the period ending September 30	
	2009	2010	2011	2011	2012
Tier 1 capital	1,475.59	2,404.77	3,143.80	2,953.59	4,149.93
Tier 2 capital	215	117	121	117.00	172.00
Gross qualifying capital	1,690.59	2,521.77	3,264.8	3,070.59	4,321.93
Less: required deductions	102.92	155.49	156.25	165.34	188.06
Total qualifying capital	1,587.67	2,366.25	3,108.56	2,905.25	4,133.87
Risk weighted assets	9,671.04	10,392.15	11,757.25	10,797.52	18,856.85
Tier 1 capital ratio	14.49	21.64	25.41	25.82	21.01
Total capital ratio	16.34	22.77	26.44	26.91	21.92

Capital Expenditure

The Bank's capital expenditure for the nine-month period ended September 30, 2012 and for the years ended December 31, 2009, 2010 and 2011 were at Php87.61 million, Php120.77 million, Php39.12 million and Php71.42 million, respectively. These expenses were comprised of acquisitions of bank premises, furniture, fixture and equipment used mainly for the Bank's expansion program.

PBB estimates it capital expenditure for the entire 2012 at Php400 million used primarily for branch expansion.

Commitments and Contingent Liabilities

The following is a summary of the Banks commitments and contingent accounts as of September 30, 2012:

In Php millions	
Investment management accounts	1,743.98
Outstanding letters of credit	3,087.67
Trust and other fiduciary accounts	82.47
Unit investment trust fund	5.57
Late deposits / payments received	3.50
Other contingent accounts	277.33
Total	2,755.95

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 trustor's 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

As disclosed in the notes to the audited financial statements as of December 31, 2011, AFS securities earned interest of 5.5 per cent to 11.38 per cent and 6.50 per cent to 11.38 per cent per annum in 2011 and 2010, respectively. 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 effective interest rates of the said re-classified securities are between 5.7 per cent to 9.14 per cent for government securities and 4.79 per cent to 8.17 per cent for peso-denominated securities. The Bank believes that since the securities covered by the reclassification are current, the Bank can recover the whole amount of investments.

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 Php594.8 million as of December 31, 2011 and Php608.2 million as of December 31, 2010. The related unrealized fair value gains, presented as part of the Trading Gains-net in the 2011 statement of income, amounted to Php5.5 million. Moreover, fair value losses recycled to profit or loss from capital funds resulting from sale of AFS securities amounted to Php28.3 million and Php18.2 million in 2011 and 2010, respectively, both are included in the amount reflected as Trading Gains-net in the Bank's statements of income. The gains from sale of securities amounting to Php561.1 million consists of Php394.3 million from available-for-sale securities; Php111.8 million from fair value through profit or loss and Php55.0 million from unquoted debt securities classified as loans.

DOSRI Loans under Related Party Transactions

The DOSRI loans as of December 31, 2011 (disclosed under Note 20.01) pertain to loans to officers and employee amounting to Php24.2 million and to other related interests (SMI Development Corp. and Asiawide Airways) totaling Php235.5 million. DOSRI loans as of December 31, 2010 wholly pertaining to loans to directors and officers and employees amounted to Php92.6 million.

Earnings per Share

The earnings per share (EPS) of the Bank as of December 31, 2011 and September 30, 2012 is Php177.85 and Php148.60, respectively. The EPS is computed by dividing the net profit of Php746.97 million and Php624.09 million, by the average number of outstanding common shares, as of December 31, 2011 and September 30, 2012, respectively, of 4,200,000 common shares.

The stock dividends declared as of July 16, 2012 amounting Php2.0 billion was not considered in the EPS computation since the same was approved by the SEC on November 16, 2012.

With the change in par value per share from Php100 to Php10 and the declaration of stock dividends, there will be an adjustment in the number of common shares to 242,000,000 as of September 30, 2012 and 42,000,000 as of December 31, 2011, thereby reducing the EPS to Php2.57 as of September 30, 2012 and Php17.78 as of December 31, 2011.

DESCRIPTION OF THE 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 granted the Bank its Certificate of Authority on February 6, 1997. In December 1997, the SEC approved the Bank's change in its corporate name to "Philippine Business Bank", which the shareholders believe better reflects the Bank's business thrust and focus.

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.

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 segment. 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. 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.

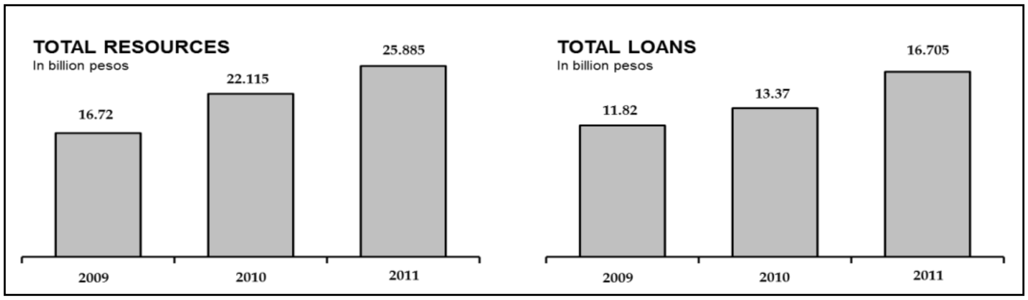
To become the bank of choice of the SME market, PBB has increased its branch presence in several commercial and industrial centers of the country and recruited branch and account officers with extensive client networks in these specific communities. The Bank's network grew from two (2) branches in 1997 to 72 branches as of September 2012, with most branches located in areas with high concentration of small and medium businesses such as Caloocan, Malabon, Navotas, Valenzuela, Quezon City as well as highly urbanized cities outside Metro Manila such as Cebu, Davao and Bacolod.

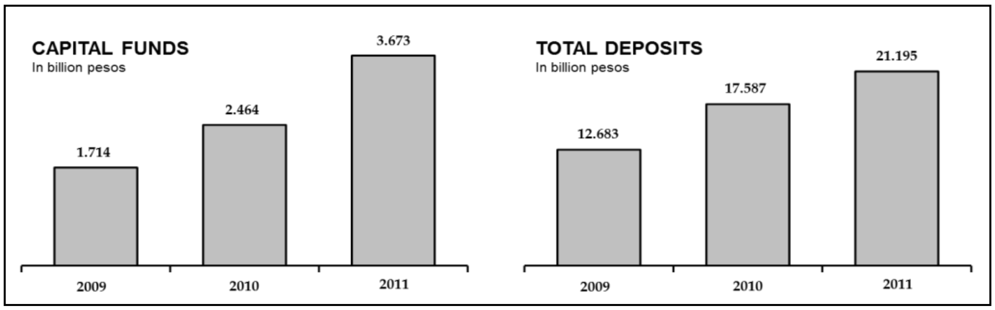
PBB believes that client proximity, understanding of its targets' banking requirements, the reputation of its branch and account management staff within their respective communities, as well as the overall reputation of PBB, are among the key factors which have and will continue to drive its growth.

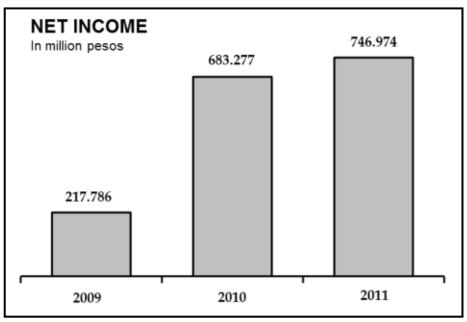
The Bank has shown a remarkable rate of growth over the past three (3) years, from 2009 to 2011. Over this period, total resources grew by 24.43 per cent from Php16.72 billion as of December 2009 to Php25.88 billion as of the end of 2011. The growth in PBB's resources was due to primarily to the increase in its loans and receivables arising from the expansion of the Bank's branch network. As of September 30, 2012, the Bank had total resources of Php29.66 billion

Over the period 2009 to 2011, PBB loans and discounts and its deposits grew at a compounded annual growth rate of 19.43 per cent and 29.27 per cent, respectively. Loans (net of unearned discount) increased from Php9.52 billion as of December 2009 to Php13.56 billion as of year-end 2011 while deposit liabilities increased from Php12.68 billion as of December 2009 to Php21.19 billion as of the end of 2011.

In comparison, over the same period, aggregate loans granted by the members of the CTB decreased by an average of 3.9 per cent while aggregate deposit accounts increased by an average of rate of 1.1 per cent over the same period.







Despite this rapid growth, the Bank believes that it has successfully maintained and improved on its operating efficiencies and risk management. Over the three year period, from 2009 to 2011, PBB's average NPL ratio was at 4.26 per cent while its operating cost to income ratio was at an average of 57.94 per cent. From December 2009 to December 2011, net income increased from Php217.8M to Php747.0M at the end of 2011, representing a compounded annual net income growth rate of 50.81 per cent. Further, average Return on Average Assets and average Return on Average Equity over the three year period was at 2.83 per cent and 23.73 per cent respectively.

In comparison, average return on resources and average return on capital of CTB's members were at 0.9 per cent and 8.1 per cent for the same period.

With this track record, PBB believes that it is strongly positioned to continue its expansion and growth programs which are discussed further in the section under "Business Strategies" (page 69).

PBB is principally owned by the family of Ambassador Alfredo M. Yao, who owns, directly and indirectly, approximately 90 per cent of the issued and outstanding Shares prior to the Offer. Aside from his interest in PBB, Ambassador Yao is the founder and/or majority shareholder of a diverse range of business interests, from air transport, food and beverages, pharmaceutical distribution and real estate development, among others.

Brief History and Recent Developments

From one branch in 1997, within the second year from its incorporation, the Bank established 15 branches in Metro Manila and surrounding provinces. In its second year of operations, PBB was also granted the approval by the BSP to engage in FCDU operations.

Over the next five (5) years, branches increased to a total of 16. PBB was also accredited as a government securities eligible dealer by SEC and became a participant in various lending and rediscounting programs.

In 2003, PBB was granted the authority to undertake trust operations and other fiduciary functions by the MB under Resolution No. 1662 dated 16 November 2003. During the year, the Bank's total branches reached 18.

In 2007, the Bank's shareholders approved the increase in PBB's ACS, from Php1.0 billion divided into 7,000,000 common shares and 3,000,000 preferred shares, at a par value of Php100 for each common and each preferred share, to Php3.0 billion, divided into 17,000,000 common shares and 13,000,000 preferred shares. The increase in PBB's ACS was approved by the SEC in September 2009.

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.

In 2008, the Bank expanded into ATM operations with "Business Card", PBB's ATM card. At the end of 2009, PBB had a total of 48 branches and 10 ATMs in its network. By the end of 2010, PBB had a total of 55 branches and provided 24-hour banking services through its network of 11 ATMs.

Also in 2009, PBB became the first savings bank to be granted the authority by the BSP to issue foreign letters of credit and to accept, negotiate, or pay import and export drafts and bills of exchange. The Bank has established correspondent banking relationships with six (6) foreign banks.

In 2011, in line with its thrust to expand its market coverage and acquire new client accounts, PBB increased its number of branches to a total of 65 and a total of 24 ATMs.

In July 2012, in anticipation of the Offer, the shareholders of the Bank approved (a) the declaration of stock dividends of 200,000,000 new common shares to stockholders of record as of July 30, 2012, (b) the change in the par value per share of its common and preferred stock from Php100.00 to Php10.00, and (c) the increase in the Bank's ACS from 17 million common shares to 870 million common shares. Other amendments to the Articles and Bylaws of the Bank include the waiver of pre-emptive rights, and the formalization of Board committees.

The Bank filed its application for the increase in ACS with the SEC and other amendments to its Articles of Incorporation and By-laws on August 16, 2012. The SEC approved the forgoing application on November 16, 2012. Immediately prior to the Offer, PBB has 242,000,000 issued and outstanding shares.

Upon completion of the Offer, the total issued and outstanding shares will amount to 343,333,400. The Offer Shares will comprise 29.51 per cent of PBB's issued and outstanding common stock after the Offer.

Competition

PBB is a thrift bank that offers a range of commercial and consumer or retail banking products, trust services and other related financial services. A detailed discussion of the services and products offered by the Bank is stated in Key Business Activities on page 71.

The Bank considers BPI Family Savings Bank ("BPI-FB"), Philippine Savings Bank ("PSB"), RCBC Savings Bank ("RCBCSB"), Sterling Bank, Planters' Development Bank and other thrift banks as its principal competitors. Based on statistics from the BSP, as of 31 December 2011, BPI-FB is the largest thrift bank in terms of asset size with total resources of Php147.6 billion, followed by PSB with total resources of Php119.5 billion and RCBCSB with total resources of Php63.5 billion.

The Bank also competes with other smaller thrift banks as well as with universal and commercial banks whose branches may target the same customers of PBB.

Despite the larger size of its direct competitors as well as the other financial institutions that PBB competes with, the Bank believes that it can compete successfully primarily because of its business and market focus as well as other competitive advantages discussed in the following sections of this Prospectus.

Competitive Advantages

PBB attributes is 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 manifest 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 which show SME concentration. 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 48 in 2009 to 72 as of September 2012 coinciding with the growth in the banks deposit base from Php12.7 billion in 2009 to Php23.01 billion as of September 2012 and its portfolio of loans and receivables from Php11.8 billion in 2009 to Php19.62 billion as of September 2012. These branches are strategically located within highly commercialized areas of the country.

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 as well as built up its securities portfolio. In 2009, PBB's AFS portfolio amounted to less than Php3.24 million. Over the years, AFS holdings and trading portfolio (FVPL) of the Bank reached Php5.61 billion as of September 30, 2012.

Portfolio gains, covering interest income from the Bank's securities investments and realized net trading gains amounted to Php316.4 million in 2009, increasing to Php991.2 million and Php1.21 billion and Php899.05 million in 2010, 2011 and as of September 2012 respectively. In 2011, portfolio gains represented 67.29 per cent of PBB gross revenue. As of September 2012, portfolio gains represented 31.36 per cent of revenues.

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 years, PBB's average NPL ratio was at 5.21 per cent in 2009, 2.81 per cent in 2010 and 3.6 per cent in 2011. In comparison, NPL ratio of CTB members was at 7.3 per cent in 2009, 7.3 per cent in 2010, and 5.76 per cent in 2011. PBB's ratio of NPA (or NPL plus ROPA) to total assets was at an average of 6.78 per cent over the three (3) year period while CTB members' was at 8.07 per cent. Restructured loans as a percentage of the Bank's total loans of the same period was at an average of 0.3 per cent.

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.

PBB's capitalization as measured by Total CAR and Tier 1 CAR was at 16.34 per cent and 14.49 per cent, 22.77 per cent and 21.64 per cent, and 26.44 per cent and 25.41 per cent for the years ending December 2009, 2010, and 2011, respectively, consistently and significantly above the capital requirements of the BSP. In comparison, average CAR of members of the CTB, over the same years was at 12.1 per cent, 12.6 per cent, and 15.5 per cent, respectively. As of September 30, 2012, CAR and Tier 1 CAR of the Bank was at 21.92 per cent and 21.01 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.

5. Highly competent and well experienced management team

PBB is managed and run 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 have, 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.

Business Strategies

PBB aims to continue and accelerate its growth and achieve a place as a leading institution in the Philippine banking industry. To achieve this objective, key components of the Bank's strategy include:

1. Expand branch network to increase PBB's presence throughout the country as well as expand the range of banking products and services that selected branches will offer

The Bank aims to expand its presence in all major commercial and industrial areas, particularly those areas showing rapid growth of SMEs and entrepreneurial activity. In particular, PBB has focused its branch expansion efforts in areas such as Caloocan, Malabon, Navotas, Valenzuela, Quezon City as well as highly urbanized cities outside Metro Manila such as Cebu, Davao and Bacolod. By the end of 2012, PBB aims to have a total of 85 branches and expand this network to 100 branches by the end of 2013. As of the date of this Prospectus, the Bank has 72 branches, of which 41 are located in Metro Manila and the balance in various provinces. At present, PBB has13 unfulfilled branch licenses, nine (9) of which are for locations in Restricted Areas and the balance of our4four (4) in provincial locations. Aside from fulfilling existing branch licenses, the Bank will also acquire from the BSP additional branch licenses in targeted areas.

In addition to the increase in the number of PBB's branches, the Bank also intends to expand the range of products and services that it shall offer. Among such plans include the establishment of treasury desks in selected branches which will offer government securities and other treasury products to the Bank's high net worth and commercial clients. Through this effort, the bank expects to increase its fee based income from the distribution of such products to its client network. PBB has been an accredited Government Securities Eligible Dealer since 2003.

2. Broaden securities trading activities

While PBB aims to realign asset allocation to allow for loan and interest income growth, PBB will continue to rely on its treasury and securities trading operations to ensure the Bank's liquidity and improve capital utilization during periods of low loan demand and/or excess liquidity.

For this reason, the Bank aims to expand its authority to expand its trading activities. For example, PBB has applied for Type 3 Dealer Authority with the BSP to allow the Bank to engage in the derivatives trading such as credit linked notes and interest and foreign exchange forwards and swaps.

3. Increase the Bank's portfolio of consumer loans, including vehicle financing, housing, salary and other highly profitable loan products

The Bank intends to exploit its position among SMEs and its presence in communities to market its consumer banking services and products. As of September 2012, total consumer loans of PBB amounted to Php 756.55 million representing 4.28 per cent of total outstanding loans. The Bank intends to increase consumer loans so that by the end of 2013, its consumer loan portfolio will increase significantly as a percentage of total loans outstanding.

4. Strengthen the Bank's organization

The Bank intends to complement its strategy of attracting and retaining experienced bank officers and managers by providing training and development programs to its employees. PBB aims to capitalize on the pool of knowledge and experience that it has acquired over the years to develop and implement such programs. Among such training programs under development include Branch Officers' Training Program, Leadership Development Program, Management Development Program, Managing Customer Service, Customer Service Excellence, Core Credit Course, Selling Bank Products and Services and Work Attitude and Values Program.

5. Strengthen management, compliance, governance, risk management frameworks, policies and practices

PBB also recognizes that continuing improvements with respect to management, compliance, governance and risk management to be critical for stability and continued growth and profitability. Aside from training and development programs to educate its existing and future personnel on such aspects, the Bank is also developing and instituting policies and processes to strengthen credit processes, risk management controls, internal controls and legal compliance.

To facilitate the implementation of these frameworks, policies and practices, the Bank is likewise strengthening its IT system to provide its managers and officers with necessary information and analytics. The enhanced IT system aims to provide business intelligence for the Board of Directors and senior management; improve the CORE systems such as central loans management and monitoring system, streamline peripheral systems such as the anti-money laundering system and trust system, and upgrade the current infrastructure to support the business strategies and plans of the Bank. Over the past years, PBB has developed its deposit system which is integrated to the Bank's general ledger system, loans origination and management systems, payroll system. Bills purchase system, AMLA transactions reporting system and the establishment of a data warehouse for data analytics used by the Bank's Risk Management Center.

6. Increase PBB's name recognition and recall

Although name recognition and recall of the Bank is strong within the communities of PBB's older branches, the Bank realizes the need to increase brand awareness, image and preference in new and prospective branch locations and eventually, throughout the country. The Bank is currently developing a marketing and advertising strategy, implementation of which has started.

7. Explore future prospects for capital-raising

With current CAR and the CAR improvements arising from the proceeds of the Offer, the Bank is well positioned to raise new capital for further expansion. Following the Offer, the Bank will evaluate prospects for raising Hybrid Tier 1 or Tier 2 capital in the next few years.

Key Business Activities

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, and the funds management of employee benefit and pre-need plans, among other typical trust products and services.

The contribution of these various business activities to PBB's revenues and income over the past three (3) years ending December 31, 2009 to 2011 and for the nine- month period ending September 30, 2012 is as follows:

For the nine-month period ending September 30, 2012:

In Php millions	Commercial Banking	Consumer Banking	Treasury Operations	Total
Net interest income	553.42	58.29	166.36	778.07
Non-Interest Income	133.05	-	630.24	763.29
Total Income (after interest expense)	686.47	58.29	796.60	1,541.36
Operating Expenses	561.38	26.46	282.19	870.03
Pre-Tax Income	125.09	31.83	514.41	671.33
Net Income	116.29	29.59	478.22	671.33

For the year ending December 31, 2011:

In Php millions	Commercial Banking	Consumer Banking	Treasury Operations	Total
Net interest income	627.26	67.66	390.59	1085.51
Non- Interest Income	168.07	-	594.88	762.95
Total Income (after interest expense)	795.33	67.66	985.47	1,848.46
Operating Expenses	600.07	59.33	342.52	1,001.93
Pre-Tax Income	195.26	38.33	642.95	846.54
Net Income	172.3	7.35	567.33	746.97

For the year ending December 31, 2010:

	Commercial Banking	Consumer Banking	Treasury Operations	Total
Net interest income	583.5	75.37	251.07	909.95
Non- Interest Income	172.5	-	608.21	780.72
Total Income (after interest expense)	756.01	75.37	859.28	1,690.66
Operating Expenses	715.73	66.71	222.2	805.32
Pre-Tax Income	40.27	8.66	637.08	686.02
Net Income	40.11	8.63	634.53	683.28

For the year ending December 31, 2009

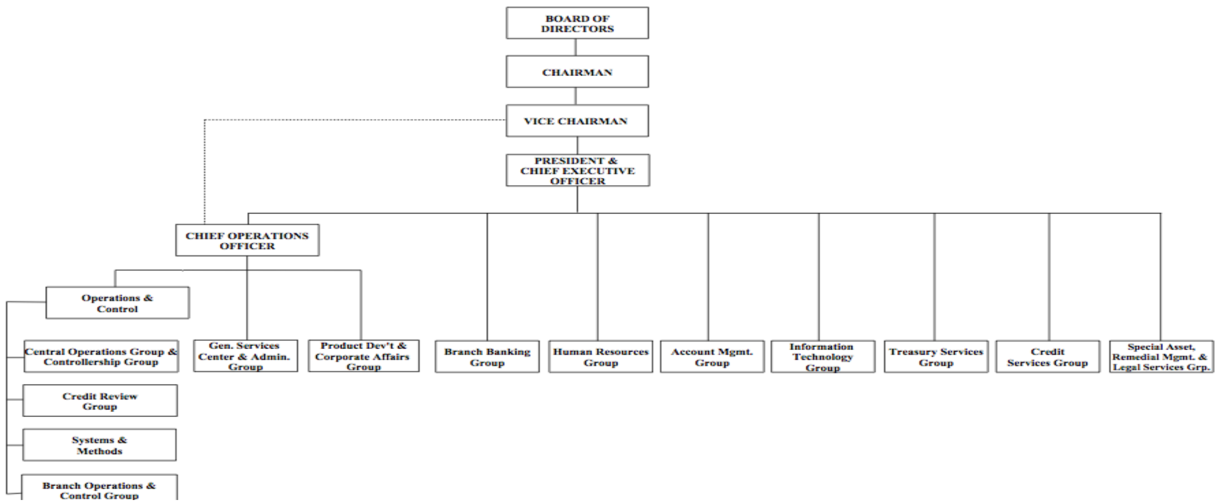
	Commercial Banking	Consumer Banking	Treasury Operations	Total
Net interest income	396.59	86.06	186.75	669.4
Non- Interest Income	139.01	-	55.07	194.09
Total Income (after interest expense)	535.6	86.06	241.82	863.49
Operating Expenses	381.72	68.63	148.92	599.27
Pre-Tax Income	153.88	17.43	92.9	264.22
Net Income	126.84	14.37	16.58	217.79

Other Services of the Bank:

The Bank has entered into an agreement with Zest Airways Corporation, Fatima University and ICCT Colleges for the Bank to act as it collecting agents.

Organization

The figure below presents the abbreviated organization chart of the Bank as of the date of this Prospectus:



To facilitate day to day management of operations, the Bank has grouped its profit centers (i.e. commercial and consumer banking, treasury), credit services (including remedial, collection, and legal), branch banking operations, and IT into one cluster under the direct supervision of its President and CEO. Head office operations, administration and controls, and other support services, on the other hand, are under the direct supervision of PBB's Vice Chairman and COO.

Employees

As of the date of this Prospectus, the Bank has a total of 728 employees broken down into the following categories:

Executives……………………………………………….	60
Managers – Operations and Support……………………	33
Managers – Branch / Marketing………………………..	60
Staff…………………………………………………….	575
Total……………………………………………………	728

Of PBB's total employees, 336 are located in PBB's head office in Caloocan City and 392 are located in the various branches throughout the country.

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.

Branches

From a single branch in 1997, PBB's branch network has grown to a total of 72 branches as of September 30, 2012. Of this total, 41 branches are located in various strategic points in Metro Manila and31 branches located key urban locations in various provinces. Each of these branches are positioned in business, commercial, and industrial areas, particularly those areas which exhibit a number of SMEs, the Bank's target segment.

As of the date of this Prospectus, PBB has a total of 13 unfulfilled branch licenses of which nine (9) are for Metro Manila branches and the balance of four (4) for provincial branches.

PBB's branches play a critical role in revenue and funds generation. Branch managers are responsible for developing customer accounts in their respective catchment areas and are evaluated based on the number of clients they accumulate, the total amount of deposits generated and loans referred for processing and approved by PBB's account management units, among other performance measures.

PBB has organized its branches into seven (7) regional groups, supervised by a branch group head to facilitate management and reportorial requirements of its branches. These branch groups and the number of branches within each are:

Branch Groups	Number of Branches
Metro Manila:	
Binondo Group	5
Quezon City, Caloocan, Malabon, Navotas, Valenzuela Group	34
Makati Group	2
Northern Luzon Group	5
Central Luzon Group	11
Southern Luzon Group	6
Visayas-Mindanao Group	9
Total	72

As the Bank's branch network expands, it intends to restructure the above-mentioned groupings to improve management and coordination of branches in the different regions of the Philippines

ATM Network

In 2008, PBB began the development of its ATM network to provide 24 hour banking services to its clients. As of the date of this Prospectus, a total of 37 ATMs are in operation, of which, 32 are located on-site or within a Bank branch with the balance of five (5) ATMs located off-site.

Of the total number of ATMs as of the date of this Prospectus, 23 are located in Metro Manila and 14 are located in various provinces.

PBB is a member of Bancnet, one of the major ATM consortiums in the country, which gives PBB clients access to ATM services of other Bancnet members and allows non-PBB client's access to the Bank's ATMs. Through Bancnet's relationships with other ATM networks, PBB clients have access to all ATM networks operating in the country.

Information Technology

PBB relies extensively on its IT infrastructure, systems, and processes to effectively manage operations, protect itself from business risks and improve customer service. The Bank's IT Group has oversight over PBB's ATM network, the Bank's IT system covering hardware, software, and network facilities as well as the development, deployment and training on systems developments and improvements.

Over the years, the group has developed and deployed the following systems to better manage the Bank's operations:

- Online deposit system which allows on-line and ATM deposits covering hardware and software requirements to accommodate up to 100 branches;
- The integration of the deposit system with the general ledger system;
- Loans origination and management system;
- Trust – UITF system,
- Payroll system;
- Bills Purchase system;
- Letters of Credit system;
- AMLA transactional reporting system; and
- Development of a data warehouse for data analytics to serve the Risk Management Center.

The Bank has identified the improvement and strengthening of its IT capabilities as a strategic requirement particularly as the Bank expands. One initiative is to develop and implement an enterprise wide management system that will integrate the various system applications that are being used today to modernize outdated applications, streamline information gathering, processing and reporting processes and provide more comprehensive information to the Bank's officers. Other IT initiatives will include the expansion of existing IT hardware, software and network to serve the planned increase in the number of PBB branches, to exceed the limit of one hundred (100) branches and faster processing of information.

The IT Group implements approved projects following the Software Development Life Cycle ("SLDC") and is regularly monitored to ensure compliance with the approved IT Strategic Plan of the Bank by an Information Technology Committee

IT Security, Disaster Recovery, and Business Continuity

The Risk Management Center's Information Security and Technology Risk Unit is responsible for ensuring the security of PBB's IT system by providing audit and compliance to ensure that security measures are in place and implemented. To protect against unauthorized access and data integrity, such measures include formal security policies, hierarchal system access authorities, password protection, firewall, and security breach detection, among others. Pertinent employees are also formally trained on such measures. Disaster recovery and business continuity management are handled by the IT group and supervised by a Business Continuity Task Force. Among the measures and controls in place for better security and measures to maximize recovery:

- Internal Hot Disaster Recovery Site to protect the main data center;
- Fully redundant data base servers with fail-over features
- Periodically updated industry-standard anti-virus software on all servers and work stations
- Firewalls set up on all points of external connection to the internet
- Standby generators to support main data center; two (2) concurrent networks with separate telecommunications companies
- Infrastructure is confidential based on levels of authority to prevent system sabotage

The Bank maintains both on-site and a redundant off-site data storage system to protect itself against disaster and has in place back-up protocols to protect against the data loss during a disaster. The Bank also has in place policies and procedures for start-up and recovery to ensure business resumption in the event of a disaster. The Bank performs disaster recovery drills annually to test current procedures and equipment.

Insurance

The Bank believes that it has adequate property insurance against fire, earthquake, and other calamities. It has taken out comprehensive general liability insurance on its 65 branches, including leasehold improvements and contents for the insured amount of Php138.66 million. The policy includes insurance coverage for bodily injury or property damage in the amount of Php2.00 million, robbery and burglary Php1.00 million, and plate glass damage for Php1.00 million.

The Bank has insured 31 ATM Machines against miscellaneous casualty for the amount of Php19.65 million. It has insured various real properties where its branches are located in different parts of the country for the total aggregate amount of Php189.11 million, as well as its fleet of vehicles assigned to the different branches.

Aside from the foregoing, the bank has also taken out comprehensive insurance coverage on monies, securities and payroll in the aggregate amount of Php135.00 million, and a comprehensive insurance coverage against fraudulent and dishonest acts for tellers and cashiers in all its branches for the amount of Php151.70 million.

These insured risks are subject to limitations and definitions of the risks in the respective insurance policies, as well as subject to compliance of the Bank with the agreed conditions stated therein.

Properties

Bank Premises, Furniture, Fixtures and Equipment

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:

Marea Ventures Corp.
Evangeline T. Lim
Araro Philippines Corp.
AJV Investment Holdings Inc.
Megathon Properties, Inc.
Rikland Property Leasing
The Philippine American Life and General Insurance Company
Atty. Ernesto LL. De Los Santos
Danilo S. Santos
Sps. Jose Q and Helen S. Cifra
Philippine-Chinese Charitable Association, Inc.
Angel S. Pascual
Domingo N. Surposa, Jr.
Rosmil Realty Development Corporation
Josie T. Lu
Luwell Realty & Development Corporation
Zaldra Realty Development Corporation
Lianting Development Corporation
Frederick C. Ibay
Holistic Management, Inc.
RSAG Building Management Services
Wilson Dy
Davao City Chamber of Commerce & Industry, Inc.
JM Agro Industrial Trading Corporation
Cheung's Development Corporation
Bonifacia Capalad & PBB
Veronica, Albino, Digna, Gregorio and Elizabeth, all surnamed Del Fonso
Firenzo Property Development, Inc./GSC Suncity Suites
LGI Group Corporation
Manuel V. Uy
Hermogenes P. Santiago
Guilmar Marble Corporation
Laoag Allied Realty and Development
Solid Gold Realty Corporation
Antonio Amistad
Omni Investment Bldg.
Reynato D. Goce
J2NS Property Development, Inc.
Flaviano G. Felizardo, III
Carmencita de Castro
Lester To Chip and Lesley To Chip
Antonio H. Yap
Heirs of Amelia M. Diguangco
International Supermarket, Inc.
Peterson Resources and Holding Inc.

Megarite Development Corporation
Luwell Realty & Development Corporation
Maria Melinda Tan Chua
Westpoint Industrial Sales Co., Inc.
Keppeland Realty Corporation
Mayson Realty Corporation
Dhondup Holdings, Inc.
Oscar F. Tirona married to Ma. Christina Tirona
Virginia Rondaris Mendoza
JTG Sears Realty Corporation
Angelica Halili Cruz
Philippine Seven Corporation
JAKA Investments Corporation
Sps. Co Ting Chu
Gold and Chimes Realty Corporation
PSL Prime Realty Corporation
Fiorino Development Corporation
Solmac Marketing, Inc.
Solmac Marketing, Inc.
Amy Leasing Company & PBB

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.

A list of leasehold interests of the Bank is hereto attached as Annex A.

Investment Properties

The Bank has no investment properties other than ROPA. ROPA is carried at fair market value less accumulated depreciation and allowances for impairment.

Intellectual Property

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.

Legal Proceedings

The Bank is not a party to any governmental, legal or arbitration proceedings that may have, or have had, any material effect on the business, financial position or profitability of PBB.

Neither the directors or executive officers of PBB or assets of PBB is a party or subject of any legal proceedings which may have, or have had, any material effect on the business , financial position or profitability of PBB.

ANALYSIS OF SELECTED ASSETS AND LIABILITIES

The tables below and accompanying discussions provide selected financial highlights regarding PBB's assets and liabilities. The following unaudited information should be read together with PBB's audited financial statements included in this Prospectus as well as "Management's Discussion and Analysis of Financial Condition and Results of Operation.

ASSETS

Loan Portfolio

As of September 30, 2012, the Bank's total loan portfolio amounted to Php17,663.95 million, representing 59.55 per cent of the Bank's total assets as of said date. Of PBB's total loan portfolio, SME loans accounted for 58.52 per cent while corporate loans accounted for 37.20 per cent.

in Php millions	As of September 30		As of December 31					
	2012		2011		2010		2009	
	Php	%	Php	%	Php	%	Php	%
Corporate loans	6,571.30	37.20	3,999.85	29.39	3,354.76	34.20	3,642.43	38.17
SME loans	10,336.10	58.52	9,300.31	68.33	6,920.95	61.72	5,460.61	57.22
Retail/consumer loans	756.55	4.28	310.84	2.28	457.73	4.08	440.10	4.61
Total	17,663.95	100.00	13,610.99	100.00	11,213.22	100.00	9,543.14	100.00

PBB's gross loans increased by 46 per cent from September 30, 2011 to September 30, 2012 due to an increase in the Bank's lending activities to book more high yielding assets. Total gross loans increased by 17.50 per cent and 21.38 per cent from December 31, 2009 to December 31, 2010 and from December 31, 2010 to December 31, 2011, respectively. The growth in loan portfolio of the Bank was mainly a result of increased lending to the SME market.

By Industry Concentration

Under the guidelines of the BSP, loan concentration exists when a bank's total loan exposure to a certain industry exceeds 30 per cent of the total loan portfolio. As of September 30, 2012, wholesale and retail trade loans granted to SME clients, who were the primary niche market of the Bank, accounted for 37.61 per cent of the Bank's total portfolio while loans to the manufacturing industry and to the services industry composed 19.53 per cent and 16.61 per cent, respectively, of total loan portfolio. The following table sets forth the composition of the Bank's loan portfolio by economic activity.

in Php millions	As of September30		As of December 31					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
Wholesale/retail trade	6,643.80	37.61	5,173.02	38.01	4,381.25	31.56	3,444.68	36.10
Services	2,934.06	6.61	1,816.32	13.34	1,032.56	25.51	571.94	5.99
Manufacturing	3,449.13	9.53	2,642.61	19.42	2,218.42	16.67	2,596.51	27.21
Construction & real estate	2,269.72	2.85	1,897.76	13.94	1,296.09	9.33	936.61	9.81
Consumer	808.94	4.58	1,471.72	10.81	1,559.17	11.62	831.85	8.72
Others	1,558.31	8.82	609.57	4.48	725.72	5.31	1,161.55	12.17
TOTAL	17,663.95	100.00	13,610.99	100.00	11,213.22	100.00	9,543.13	100.00

The BSP also requires banks to allocate 25 per cent of their loanable funds for agricultural credit of which at least 10 per cent is made available for agrarian reform credit. For its agrarian reform and agricultural lending requirements, banks can meet this requirement by investing in eligible government securities subject to certain conditions. The Bank is in compliance with this requirement. The Bank is likewise in compliance with BSP regulations with respect to the ceiling on loans to the real estate sector.

By Maturity

The following table sets forth an analysis of the Bank's loans classified by maturity:

in Php millions	As of September 30		As of December 31					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
Due within one year	14,129.58	80.00	10,626.50	78.07	8,680.27	77.41	7,995.73	83.79
Due between one to five years	2,713.82	15.35	1,836.73	13.49	1,996.61	17.81	1,248.15	13.08
Due over five years	820.55	4.65	1,147.76	8.43	536.34	4.78	299.25	3.14
TOTAL	17,663.95	100.00	13,610.99	100.00	11,213.22	100.00	9,543.13	100.00

As of September 30, 2012, 80 per cent of PBB's loans and receivables consisted of loans due within one (1) year and 15.35 per cent consisted of loans due between one (1) year to five (5) years. These short term loans receivables were mostly loans granted to fund the borrowers' operating or working capital requirements. PBB's longer term loans are usually granted to companies who require funding for their capital expenditure and expansion programs.

By Denomination

The following table sets forth an analysis of the Bank's loans classified by denomination for the applicable periods:

	As of September 30		As of December 31					
in Php millions	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
Philippine pesos	17,362.36	98.29	13,601.98	99.93	11,098.46	98.98	9,046.58	94.80
Foreign Currency	301.59	1.71	9.01	0.07	114.76	1.02	496.56	5.20
TOTAL	17,663.95	100.00	13,610.99	100.00	12,213.22	100.00	9,543.14	100.00

The Bank provides primarily peso-denominated loans to its clients and, in certain cases, grants foreign-currency denominated loans. These foreign currency loans are granted only to those borrowers who have foreign currency earnings from which the loan will be repaid.

As of September 30, 2012, majority of PBB's gross loans were denominated in pesos while the foreign currency loans were less than two per cent (2%) of total loan portfolio. Substantially all of these foreign currency denominated loans were loans to corporate borrowers and in U.S. dollars.

Secured and Unsecured Loans

The Bank minimizes credit risk on the loans by requiring borrowers to mortgage collateral as security for the payment of loans. While the Bank's primary focus in the evaluation of a borrower's credit worthiness is the assessment of the borrower's cash flows, in instances where the Bank will require collateral, the policy of the Bank is to secure 100 per cent of the loan amount.

As of September 30, 2012, secured loans comprised 46.01 per cent of total loans outstanding. Of these secured loans, 31.04 per cent are backed by mortgages on real property. The following table sets forth information on the Bank's secured and unsecured loans, divided by type of security:

In Php millions	Sept. 30, 2012		Dec. 31, 2011		Dec. 31, 2010		Dec. 31, 2009	
	Amount	%	Amount	%	Amount	%	Amount	%
Loans secured by:								
▪ Real Estate	5,482.13	31.04	4,196.18	30.83	3,701.91	33.01	2,697.40	28.27
▪ Chattel Mortgage	1,263.98	7.16	958.67	7.04	998.34	8.90	658.40	6.90%
▪ Deposit hold-out	1,078.26	6.10	664.10	4.88	377.29	3.36	129.32	1.36%
▪ Others	303.54	1.71	328.85	2.42	383.30	3.42	559.20	5.86%
Unsecured	9,536.04	53.99	7,463.20	54.83	5,752.37	51.30	5,498.82	57.62%
TOTAL	17,663.95	100.00	13,610.99	100.00	12,213.22	100.00	9,543.14	100.00

DOSRI Loans

In the normal course of business, the Bank lends to its directors, officers, stockholders and related interests. These loans and other transactions are, as a policy, made on substantially the same terms as other individuals or companies with comparable risks. Based on the BSP's guidelines, the amount of individual loans, guarantees and credit accommodations to DOSRI should not exceed an amount equivalent to their unencumbered deposits and book value of DOSRI's paid-in capital investment in the bank and in no case should the unsecured loans, other credit accommodations and guarantees to each of the individual DOSRI exceeds 30 per cent of their respective total loans, other credit accommodations and guarantees. Total outstanding loans, guarantees and other credit accommodations to DOSRI generally should not exceed 100 per cent of the bank's net worth or 15 per cent of the bank's total loan portfolio, whichever is lower. Moreover, in no case shall the total unsecured loans, guarantees and other credit accommodations to DOSRI exceed 30 per cent of the aggregate ceiling or of the outstanding loans, guarantees and other credit accommodations, whichever is lower. As of September 30, 2012, and in the periods ending December 31, 2011 and December 31, 2010, the Bank has complied with the DOSRI rules of the BSP.

The following table shows information with respect to these loans, guarantees and other credit accommodations classified as DOSRI accounts:

in Php millions	As of December 31			As of September 30
	2009	2010	2011	2012
Total Outstanding DOSRI Loans	32.53	92.59	259.73	738.05
DOSRI Loans/Total Loans	0.34%	0.82%	1.90%	4.18%
Unsecured DOSRI Loans/DOSRI Loans	-	-	-	-
Past due DOSRI loans /Total DOSRI Loans	-	-	-	-
Non-Performing DOSRI Loans/Total DOSRI Loans	-	-	-	-

Interest Rates

As of September 30, 2012, December 31, 2009, 2010 and 2011, 79.50 per cent, 76.00 per cent, 82.53 per cent, and 82.55 per cent, of the Bank's total loan portfolio, respectively, comprised of floating rate loans, are re-priced periodically using the Bank's transfer pool rate, or the Bank's internal cost of funds, as reference.

The following table shows the total amount of gross loans that bear fixed and variable rates as of September 30, 2012:

In Php millions	Amount	% to Total
Fixed	3,621.11	20.50
Variable	14,042.84	79.50
Total	17,663.95	100.00

The Bank's pricing policy with respect to its interest-bearing liabilities is set by the Asset and Liability Committee. Interest is paid on savings accounts and time deposit accounts which constituted 38.86 per cent and 61.14 per cent of total deposits as of September 30, 2012.

The Bank manages its interest rate risk by monitoring current market interest rates and assessing the effect of changes in interest rates on its income.

Non-Performing Loans

Under the guidelines of the BSP, loans are classified as past due if (a) repayment of principal at maturity or any scheduled payment of principal or interest due quarterly (or longer) is not made when due, (b) in the case of any principal and/or interest due monthly, if three (3) or more principals and/or interests due are in arrears and (c) the total unpaid installments for loans with mode of payment other than monthly, quarterly, semi-annual or annual, i.e., daily, weekly or semi-monthly, reaches 10 per cent of the total loans and receivable balance. In the first case, such loans are treated as non-performing if the payment is not made within a further 30 days, and in the second and third cases, such loans are treated as non-performing when the loans and receivables become past due~~.~~

The table below sets out the Bank's top 10 NPLs, non-performing assets, allowances and restructured loans.

in Php millions	As of December 31			As of September 30
	2009	2010	2011	2012
Non-performing loans (NPL)	498.1	315.7	488.7	802.30
Total gross loans	9,543.13	11,213.22	12,181.38	17,663.95
NPL as a percentage of gross loans	5.21%	2.81%	3.59%	4.54%
Real and other properties acquired (ROPA, net of impairment)	306.18	282.53	397.39	438.38
Non-performing assets (NPA) (NPL + ROPA net)	804.28	598.23	886.09	1,240.68
NPA as a percentage of total assets (net)	4.81	2.70	3.42	4.18
Allowance for probable losses	258.12	488.66	491.66	556.68
Allowance for probable losses (ROPOA)	14.88	23.92	24.3	27.56
Allowance for probable losses as a percentage of total NPL	51.82	154.79	100.61	69.39
Allowance for probable losses as a percentage of total NPA	33.94	85.35	58.23	44.87
Total restructured loans	8.13	-	77.8	141.60
Non-performing restructured loans, gross		-	77.80	139.83
Performing restructured loans, gross	8.13	-	-	1.79

Financial Assets at Fair Value through Profit or Loss

The Bank's held for trading government securities with fair value of Php832.10 million as of September 30, 2012. These securities earn interest at rates ranging from 5.00 per cent to 8.10 per cent per annum. For the nine-month period ending September 30, 2012, the Bank earned total interest income of Php73.5 million which was booked as Interest Income on Investment Securities in the Bank's Statement of Income.

As of year-end 2011, the Bank held for trading government securities with fair value of Php207.74 million. These securities earned interest of between 6.38 per cent to 8.75 per cent per annum. Related unrealized fair value gains amounted to Php5.5 million and booked as part of the Bank's trading gains in its profit and loss statement.

Available-for-Sale Securities

As of September 30, 2012, PBB held a total of Php3,779.67 million available-for-sale ("AFS") securities, of which Php3,030.18 million was composed of government securities and the balance of Php749.49 million was composed of other securities and debt instruments. These AFS securities earn interest at rates ranging from 5.0 per cent to 9.1 per cent per annum. Interest income earned amounted to Php195.3 million in 2012 was booked as part of Interest

Income from Investment Securities. Fair value losses recycled to profit or loss from capital funds arising from the sale of AFS securities amounted to Php383.8 million for the nine-month period ending September 30, 2012 and booked under trading gains in the Bank's profit and loss statement.

LIABILITIES

Deposits

As of September 30, 2012, PBB's deposits amounted to Php23,006.04 million, representing a 16.61 per cent growth over deposits of Php19,729.37 million as of September 30, 2011. The table below presents a breakdown of the Bank's deposits by type:

Amounts in Php millions	As of December 31			As of September 30	
	2009	2010	2011	2011	2012
Demand	214.59	403.36	318.44	238.22	354.07
Savings	7,828.93	8,870.64	8,733.28	8,232.71	8,586.37
Time	4,639.24	8,313.40	12,143.26	11,258.44	14,065.60
Total	**12,639.24**	**17,587.41**	**21,194.99**	**19,729.37**	**23,006.04**

The Bank accepts both local and non-peso denominated deposits with the latter handled through its FCDU operations which are allowed to accept deposits and grant credit facilities in foreign currencies. Foreign currency deposits, however, made up only 11.7 per cent of the Bank's total deposit liabilities as of September 30, 2012.

To achieve funding stability, the Bank has exerted efforts to generate low-cost deposits, introduce products to diversify scheduled maturities of deposits and reduce discrepancies between loan and deposit maturities. As of September 30, 2012, the Bank's deposit liabilities had a balance to maturity as follows:

In Php billions	up to 3 months	From 3 months to 1 year	Over 1 year	Total
Balance to maturity for deposit liabilities	1,065.91	1,717.09	223.10	23,006.04

Bills Payable

The Bank also sources funds from bills and acceptances payable which are primarily borrowings from local and foreign banks. PBB maintains credit lines with local banks and other financial institutions for treasury management purposes. Borrowings from other banks are normally for short-term durations of between one (1) day to one (1) month. The table below sets out information related to PBB's bills and acceptances payable for the relevant periods:

In Php millions	As of the September 30	As of the year ending December 31		
	2012	2011	2010	2009
Ending balance	896.99	121.48	1,213.02	1,214.71
Ave. balance during the period	497.83	852.72	1,202.59	365.05
Ave. interest rate during the period	4.60%	4.7%	4.83%	5.18%

Liquidity

The Bank's main sources of funds are deposits, capital and bills payable. The Bank manages these funds to ensure that the operating requirements of the Bank are supported and to ensure a stable source of funds to meet maturing obligations. The following table sets forth an analysis of the Bank's principal funding sources and the average cost of each funding source:

Amounts in Php millions	As of September 30, 2012	Average Cost of Funding* (%)	As of Dec. 31, 2011	Average Cost of Funding	As of Dec. 31, 2010	Average Cost of Funding	As of Dec. 31, 2009	Average Cost of Funding
Demand	54.07	-	318.44	-	403.36	-	214.59	-
Savings	8,586.37	1.06	8,733.28	1.55	8,870.64	2.39	7,828.93	2.65
Time	14,065.60	4.20	12,143.26	4.36	8,313.40	5.11	4,639.24	5.49
Total	23,006.04	2.84	21,194.99	2.93	17,587.41	3.14	12,639.24	3.42
Bills Payable	896.99	4.08	121.48	4.25	1,213.00	4.38	1,214.71	5.43
Total Deposits & Bills Payable	23,903.03	2.85	21,316.47	2.90	18,800.41	3.67	13,897.47	4.06

*Average cost of funding represents total interest expense for the year which is divided by the average daily liability for the period

Deposits comprised 96.25 per cent, 91.26 per cent, 93.55 per cent, and 99.43 per cent of total funding sources as of September 30, 2012, December 31, 2009, 2010 and 2011, respectively. Deposits grew at an annual rate of 29.59 per cent from December 31, 2009 to December 31, 2011 reaching Php21.19 billion by year-end 2011 and Php23.01 billion as of September 30, 2012. The growth in deposits was driven principally by the expansion in the Bank's branch network as well as the aggressive marketing efforts by the branch banking group.

Pursuant to the regulations of the BSP, thrift banks are required to maintain regular reserves of eight per cent (8%) against peso demand, savings and time deposits, negotiable order of withdrawal accounts and deposit substitutes. Reserves may be in the form of cash in vault or deposits with the BSP or eligible government securities.

For FCDU, banks are required to maintain an asset cover of at least 100 per cent of liabilities, of which 30 per cent should be in liquid assets.

As of September 30, 2012, the Bank's total liquid assets, which is composed of cash and other cash items, due from the BSP and other banks, interbank loans receivable and investment securities, amounted to Php9,273.24 million. Total liquid assets accounted for 31.26 per cent of the Bank's total assets.

The following table shows information on the Bank's liquidity position for the past three (3) years and as of the first nine months of 2012:

	As of Sept. 30, 2012	As of Dec. 31, 2011	As of Dec. 31, 2010	As of Dec. 31, 2009
Liquid Assets (Php millions)	9,273.24	7,965.69	7,635.66	3,849.06
Liquid Assets to Total Assets	31.26%	30.77%	34.53%	23.02%
Liquid Assets to Total Deposits	40.31%	37.58%	43.41%	30.35%
Gross Loans* to Total Deposits	76.78%	64.21%	63.75%	75.24%

*Gross loans refers to gross loans and discounts (before unearned discount and impairment)

BOARD, MANAGEMENT AND CERTAIN SHAREHOLDERS

Board of Directors

Under the PBB's Articles of Incorporation, the Board is composed of 10 Directors, two (2) of which are independent. The Board is responsible for the overall management and direction of the Bank. The Board meets regularly every month and as often as necessary, to be provided with updates on the business of the Bank and consulted on PBB's material decisions.

No person can be elected as a director of the Bank unless he/she is a registered owner of at least one (1) voting share of the capital in the Bank. Each director has a term of one (1) year and is elected annually at PBB's stockholders meeting which is held every last Friday of April unless rescheduled. A director who was elected or appointed to fill a vacancy holds the office only for the unexpired term of the predecessor.

As of the date of this Prospectus, 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	
Francis T. Lee	64	Filipino	Chairman	April 30, 2010
Peter N. Yap	65	Filipino	Vice Chairman	Sept. 1, 2011
Rolando R. Avante	53	Filipino	President and Chief Executive Officer	Nov. 2, 2011
Amador T. Vallejos, Jr.	65	Filipino	Director	April 27, 2012
Jeffrey S. Yao	44	Filipino	Director	Nov. 1999
Honorio O. Reyes- Lao	68	Filipino	Director	April 29, 2011
Paterno H. Dizon	74	Filipino	Independent Director	April 27, 2012
Leticia M. Yao	59	Filipino	Director	April 29, 2011
Josephine Joy D. Caneba	32	Filipino	Corporate Secretary	
Robert S. Santos	63	Filipino	Asst. Corporate Secretary and Internal Legal Counsel	
Benjamin R. Sta. Catalina, Jr.	64	Filipino	Independent Director	July 16, 2012
Joseph Edwin S. Cabalde	42	Filipino	Treasurer	
Alice P. Rodil	55	Filipino	Senior Vice President and Controller/ Investor Relations and Compliance Officer	

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-OO 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 f 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. 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, and in the same year became the Corporate Treasurer.

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.

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

As of the date of this Prospectus, the Bank does not know of any other pending litigation, within the last five (5) years, to which it or any of its affiliate, or of which any of their property is the subject other than the following, which are not material to the operations of the Bank and do not have a material adverse effect on the Bank:

1. On February 21, 2011, Alicia Tumada, 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. 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. As of the date of this Supplement to Information Memorandum, no probable cause for criminal complaint is found by the Office of the Prosecutor against the above-named officers of the Bank.

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 in 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. As of the date of this Supplement to Information Memorandum, no probable cause for criminal complaint is found by the Office of the Prosecutor against the above-named officers of the Bank.

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 case is now submitted for Resolution. As of the date of this Supplement to Information Memorandum, no probable cause for criminal complaint is found by the Office of the Prosecutor against the above-named officers of the Bank.

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.

Except as disclosed above, No Director, executive officer, or senior officer of the Bank during the past five (5) years that has been subject to:

(a) Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(b) Any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities.

(c) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

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*			*Estimate aggregate compensation paid as a Group*	
	2009	*2010*	*2011(a)*	2012	2013
CEO and the six (6) most highly compensated officers of the Bank namely: Danilo A. Alcoseba Constantino B. Bombais Alfredo M. Yao [c] Francis T. Lee [c] Roland R. Avante[b] Peter N. Yap Raymond T. Co Alice P. Rodil	16.32	21.06	24.03	26.43	29.07

(a) Includes compensation to Messrs. Danilo A. Alcoseba and Constantino B. Bombais, who retired in August 2011 and March 2011, respectively.
(b) Mr. Roland A. Avante joined the Bank as President and CEO in November 2011.
(c) Messrs. Alfredo M. Yao and Francis T. Lee receive a fixed monthly compensation in line with their respective functions in the Bank.

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, Termination of Employment, 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.

Corporate Governance

The Bank submitted on August 25, 2010its Manual on Corporate Governance to the SEC in compliance with SEC Memorandum Circular No. 2. PBB and its respective directors, officers and employees have complied with the best practices and principles on good corporate governance as embodied in its Corporate Governance Manual.

An evaluation system has been established by the Company to measure or determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance.

The Chief Compliance Officer, Mr. Agustin E. Dingle, regularly reviews, at least on quarterly basis, compliance by the Board and Management of the various corporate governance requirements contained in the Manual of Corporate Governance through a checklist of requirements, and reports his findings in accordance with the provisions of the Manual of Corporate Governance.

Independent Directors

The Manual requires the Bank to have two (2) independent directors in the Board of Directors, at least one of whom serves on each of the Corporate Governance/Nomination Committee, Manpower, Remuneration and Compensation Committee and the Audit Committee. An independent director is defined as a person who has not been an officer or employee of the bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from date of his election, or any other individual having a relationship with the institution, its parent, subsidiaries or related interest, or to any of the institution's director, officer or stockholder holding shares of stock sufficient to elect one seat in the board of directors or any of its related companies within the fourth degree of consanguinity or affinity, legitimate or common-law, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Committees of the Board

Pursuant to the bank's Manual, the Board has created the following committees below and has appointed members thereto to which each of the committee members holding office as of the date of this Prospectus shall serve until his or her successor shall be elected and qualified.

a. Executive Committee

The Executive Committee is comprised of at least three (3) Board members. Generally, it approves, acts, or implements, by majority vote of all its members, on matters within the competence of the Board except those matters specifically reserved by the Corporation Code to the Board of Directors.

This committee also is responsible for the approval and/or review of over-all credit strategy, profile, and performance. The Executive Committee of the Bank meets once every month or as often as necessary to address matters brought to its attention. As of the date of this Prospectus, the members of the Executive Committee are Mr. Francis T. Lee as Chairman, and Messrs. Peter N. Yap and Rolando R. Avante as Members.

b. Audit Committee

The Bank's Audit Committee is composed of at least three (3) Board members, two of whom shall be independent directors including Chairman) preferably have related accounting, audit and related financial management experience. A key Audit Committee function is to oversee the Bank's financial reporting, internal and external audit activities. Together with other relevant committees, the Audit Committee also provides oversight over the senior management's activities in managing credit, market, liquidity, operational, legal and other risks faced by the Bank.

The Audit Committee meets once every month. As of the date of this Prospectus, members of the Audit Committee are Director Paterno H. Dizon, Director Jeffrey S. Yao, Director Amador T. Vallejos and Independent Director Benjamin R. Sta. Catalina.

Pursuant to SEC Memorandum Circular No. 4, Series of 2012, the Bank shall ensure that the Audit Committee creates a charter that will guide its conduct of the functions of the committee and make an assessment of the performance of the Audit Committee within one (1) year after its initial public offering.

c. Risk Management Committee

PBB's Risk Management Committee is composed of three (3) Board members and the Chief Risk Officer. Among major functions of this committee are (1) development and implementation, in coordination with the lime management of the Bank's corporate risk policy, (2) monitor the timely reporting of internal and external risks by the Bank, based on set requirements by internal and external bodies (3) identify and evaluate exposures, (4) develop risk management strategies (5) oversee implementation of the risk management plan, and (6) review and revise the plan as needed

The Risk Management committee meets every month and as of the date of this Prospectus, its members are Directors Amador T. Vallejos and Jeffrey S. Yao, Independent Director Benjamin R. Sta. Catalina and Chief Risk Officer Amelita H. Carrillo.

d. Trust Committee

PBB's Trust Committee is composed of five (5) members including the President and the Trust Officer and three (3) members of the Board. Among major functions of this committee are to: (1) formulate and endorse to the board for approval trust policies and guidelines, (2) implement trust policies and guidelines approved by the board, (3) review trust and other fiduciary accounts accepted, terminated or closed by the Trust and Investment Center (TIC) at least every twelve (12) months,(4) review the actions of all officers and employees designated to manage the trust and fiduciary accounts, and (5) ensure that the responsibilities vested to the Trust Officer are properly performed.

The Trust Committee meets once every quarter or as often as the chairman of the committee deems necessary and as of the date of this Prospectus, its members are Mr. Honorio Reyes-Lao, Chairman, Mr. Francis T. Lee, Mr. Rolando R. Avante, Dra. Leticia M. Yao and Ms. Teresita S. Sion (as OIC-Trust and Investment Center) as members.

e. Corporate Governance/ Nomination Committee

The Bank's Corporate Governance/Nomination Committee is composed of three (3) directors, two of whom are independent directors, including the chairman, who meet once every two (2) months or as often as may be required by the chairman. With respect to corporate governance, this committee is responsible for the development, implementation and review of the Bank's Corporate Governance Program. It assists the Board of Directors in fulfilling its corporate governance responsibilities and reviews and evaluates the qualifications of all persons nominated to the board as well as those nominated to other positions requiring appointment by the Board of Directors.

The Corporate Governance and Nomination Committee's members, as of the date of this Prospectus are Independent Director Paterno H. Dizon as Chairman and Independent Director Benjamin R. Sta. Catalina and Director Amador T. Vallejos.

f. Manpower, Compensation and Remuneration Committee

Manpower, Compensation and Remuneration Committee is composed of four directors, one of whom is an independent director, who meet once every month, or as often as may be required by the Chairman. This committee is responsible for establishing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors; providing oversight over remuneration of senior management and other key personnel; designating the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the bank successfully; developing a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers; and reviewing the existing Human Resources Development or Personnel Handbook, to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.

The Manpower, Compensation and Remuneration Committee members as of date of this Prospectus are Director Amador T. Vallejos as Chairman, Independent Director, Paterno H. Dizon, Chairman of the Board Francis T. Lee, Vice Chairman of the Board, and President and CEO Rolando R. Avante as Members.

Investor Relations Office

The Bank is in the process of hiring qualified personnel and experienced professionals for its Investor Relations unit. Ms. Alice P. Rodil will temporarily head the Investor Relations unit which has been tasked to establish an Investor Relations Committee that will be responsible for ensuring that all of the Company's shareholders have access to official announcements, disclosures and publicly available information regarding the Company.

The Investor Relations Committee will also be responsible for receiving and responding to investor and shareholder queries and in ensuring that investors and shareholders have easy and direct access to the Company's officially designated spokespersons.

Ms. Rodil shall also temporarily assume the role and responsibility of the Chief Information Officer (CIO). The CIO will ensure that the Company complies with and files on a timely basis all required disclosures and continuing requirements of the SEC and the PSE.
The Investor Relations Unit will be located in the Bank's Head Office with contact details as follows:

Landline: 363-3333
Email: rodil_ap@pbb.com.ph
Website: pbb.com.ph

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS

As of the date of this Prospectus, 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.

Zest-O Corporation

Zest-O Corporation is a company registered with the Philippine Securities and Exchange Commission. The company was incorporated on May 1981 in the Philippines. Zest- O Corporation was formed with the primary purpose of manufacturing and distribution of food products in the Philippines Ambassador Alfredo M. Yao is the Chairman and Jeffrey S. Yao is the Chief Operations Officer.

Zest-O Corporation pioneered the first-ready-to-drink juice drink in flexible foil pouch. Currently, the company operates five (5) manufacturing plants around the country and employs approximately 100 personnel for each manufacturing plants. The company has an authorized capital stock Php200 million, which is fully subscribed.

Its corporate office is located at 74 P. Dela Cruz Street, Sitio Gitna, Novaliches, Quezon City.

Preferred Shares

As of the date of this Prospectus, the Bank is authorized to issue 130,000,000 preferred shares with aggregate par value of Php1.3 billion. To date, PBB has issued Php620 million worth of preferred shares, subscribed and paid for by the following:

Preferred Shareholder	Number of Preferred Shares
Alfredo M. Yao	5,500,000
Jeffrey S. Yao	6,462,500
Carolyn S. Yao	10,250,000
Mary Grace S. Yao	5,287,500
Zest O Corporation	34,500,000
Total	**62,000,000**

Security Ownership of Management

As of the date of this Prospectus, 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	574	negligible
Benjamin R. Sta. Catalina	Filipino	Director	58	negligible
Paterno H. Dizon	Filipino	Director	58	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 per cent of the issued and outstanding capital stock of the Bank.

Voting Trust

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

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 September 30, 2012 and 2011, total loans extended to DOSRI amounted to Php738.05 million and Php27.18 million, respectively. As of September 30, 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:

	September 30, 2012	September 30, 2011
Total outstanding DOSRI loans	Php 738.05 million	Php27.18 million
% to total loan portfolio	0.12%	0.21%

The Bank has no past due DOSRI loans as of September30, 2012 and 2011.

As of September 30, 2012, the Bank had approved line of credit to certain related parties totaling Php719.7 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 Php17.16 million and Php26.4 million, as of September 30, 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 September 30, 2012, the total balance of DOSRI deposits, inclusive of the corresponding related accrued interest, included in the financial statements amounted to Php4.50 billion. As of September 30, 2011, total DOSRI deposits amounted to Php2.2 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

Agreements among Certain Shareholders

As of the date of this Prospectus, there were no existing agreements among or between the shareholders.

MATERIAL CONTRACTS

The Company does not know of any material contracts and agreements except for the following:

1. *Plan of Merger between Philippine Business Bank and Kabalikat Rural Bank dated May 21, 2008*

   Under this Agreement, the parties agreed that Kabalikat Rural Bank, Inc. (KRBI) be merged with Philippine Business Bank, with the latter as the surviving corporation of the merger and upon completion of merger the separate existence of KRBI shall terminate.

   With the merger, all properties (real or personal, tangible and intangible) of KRBI including the right to the name "Kabalikat Rural Bank, Inc." and all receivables due to KRBI and all and every interest belonging to or due to KRBI as of the effective date of the Plan of Merger shall be deemed transferred to KRBI. Similarly, all liabilities and obligations of KRBI shall be transferred to and become obligations of Philippine Business Bank.

   The Securities and Exchange Commission approved the Plan of Merger on March 3, 2010. The Bangko Sentral ng Pilipinas approved the merger between KRBI and Philippine Business Bank on January 23, 2009.

2. *Payment Collection Agreement between Philippine Business Bank and Zest Airways, Inc. dated May 14, 2008*

   The Payment Collection Agreement allows Zest Airways, Inc. to avail of the automated online payment collection system of PBB (the "System"), which facilitates the receipt of payment intended to Zest Airways, through the different branches of PBB.

   To facilitate the transaction, Zest Airways authorized all the branches of PBB to receive over the counter payments or deposit to be credited to the main deposit account of Zest Airways in PBB.

   This Agreement remains effective and binding between the parties.

3. *Lease Agreements*

   A matrix of lease agreements entered into by PBB is hereto attached. The matrix provides for the names of the parties to the agreement, term of contract and location of the leased property and amount of lease rental.

DESCRIPTION OF SECURITIES

The following is general information relating to the Bank's capital stock but does not purport to be complete or to give full effect to the provisions of the law and is in all respects qualified by reference to the applicable provisions of the Bank's amended articles of incorporation and by-laws.

Share Capital

PBB was incorporated on January 28, 1997 as Total Savings Bank, Inc. with an authorized capital stock of One billion Pesos consisting of Ten Million common shares with a par value of Php100.00 per share, of which 3,000,000 shares have been subscribed and paid-up.

On January 18, 2003 the SEC approved the reclassification of unissued common shares of PBB to preferred shares thus its authorized capital stock of PhpPhp1.0 billion is divided into 7,000,000 common shares with par value of Php100.00 per share and 3,000,000 preferred shares with par value of Php100.00 per share. The preferred shares had the following features:

a) non-voting except in those cases where the law expressly allows them to vote;
b) non-convertible, but shall be redeemable in (5) years from the date of issue as the Board may fix, provided that approval shall be secured from BSP prior to such redemption and such redeemed shares shall be replaced with at least an equivalent amount of newly paid-in shares to maintain the level of total paid in capital;
c) holders of preferred shares are entitled to annual dividend of 8 per cent, payable out of net profits, before any dividend is declared upon the common stock of the company. Should the net profit in any year be insufficient to pay such preferred dividend, either in whole or in part, the unpaid portion thereof shall not be charge against the future net profits of the company, but the same shall be paid only from net profits of the particular year to which it may pertain.

On September 17, 2009, the SEC approved the increase in authorized capital stock of PBB to Php3.0 billion divided into 17,000,000 common shares and 13,000,000 preferred shares, both classes of share with par value of Php100.00 each. The increase in authorized capital stock was funded through the issuance of Php500,000,000.00 worth of preferred shares, of which Php125,000,000 has been paid.

To date, there are 62,000,000 issued preferred shares, all of which have been fully paid.

On November 16, 2012, the SEC approved the increase in the authorized capital stock of PBB to Php10.0 billion pesos divided into 870,000,000 common shares with par value of Php10.00 per share and 130,000,000 preferred shares with par value of Php10.00 per share.

Of the increase in the authorized capital stock in the amount of Php7.0 billion, 200,000,000 common shares worth Php2.0 billion pesos have been subscribed and paid up through the declaration of stock dividends of the Corporation on July 16, 2012.

The Articles of Incorporation of PBB has been amended to deny pre-emptive rights of stockholders to any unissued portion of the capital stock.

Rights Relating to the Shares

Voting Rights

The Bank's Common Shares have full voting rights while the Bank's preferred shares have no voting rights.

At each meeting of the shareholders, every common stockholder entitled to vote on a particular question or matter involved shall be entitled to one (1) vote for each share of stock standing in his name in the books of the Bank at the time of closing of the transfer books for such meeting.

The Philippine Corporation Code provides that voting rights cannot be exercised with respect to shares declared delinquent, treasury shares, or if the shareholder has elected to exercise his rights of appraisal referred to below.

Dividend Rights

Under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual or legal purposes and which are free for distribution to the shareholders as dividends. A corporation may pay dividends in cash, by the distribution of property or by the issuance of shares. Stock dividends may only be declared and paid with the approval of shareholders representing at least two-thirds of the issued and outstanding capital stock of the corporation voting at a shareholders' meeting duly called for the purpose.

The Bank's Board of Directors is authorized to declare cash or stock dividends or a combination thereof. A cash dividend declaration requires the approval of the Board and no shareholder approval is necessary. A stock dividend declaration requires the approval of the Board and shareholders representing at least two-thirds of the Bank's outstanding capital stock. Holders of outstanding shares on a dividend record date for such shares will be entitled to the full dividend declared without regard to any subsequent transfer of shares.

The Bank has not declared a dividend policy and will declare dividend by based on the recommendation of the Board. Such recommendation will take into consideration factors such as operating expenses, implementation of business plans, and working capital among other factors.

Pre-Emptive Rights

The Corporation Code confers pre-emptive rights on shareholders of a Philippine corporation, which entitle them to subscribe to all issues or other disposition of shares of any class by the corporation in proportion to their respective shareholdings, subject to certain exceptions. A Philippine corporation may provide for the exclusion of these pre-emptive rights in its articles of incorporation. The Articles of Incorporation of the Bank currently contains such a denial of pre-emptive rights on all classes of shares issued by the Bank and therefore, further issues of shares (including treasury shares) can be made without offering such shares on a pre-emptive basis to the existing shareholders.

Derivative Rights

Philippine law recognizes that the right of a shareholder to institute proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights as, for example, where the directors themselves are the malefactors.

Appraisal Rights

As provided for by law, any stockholder shall have a right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment of the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code of the Philippines;

3. In case of merger or consolidation; and

4. In case the corporation invests corporate funds in another corporation or business or for any other purpose.

In these circumstances, the dissenting shareholder may require the corporation to purchase its shares at a fair value, which in default of agreement is determined by three disinterested persons, one of whom shall be named by the shareholder, one by the corporation, and the third by the two thus chosen. The designated commercial courts of the Regional Trial Court in a given city or province will, in the event of a dispute, determine any question about whether a dissenting shareholder is entitled to this right of appraisal. The remedy will only be available if the corporation has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting shareholders. From the time the shareholder makes a demand for payment until the corporation purchases such shares, all rights accruing on the shares, including voting and dividend rights, shall be suspended, except the right of the shareholder to receive the fair value of the share.

Derivative Suits

Philippine law recognizes the right of a shareholder to institute, under certain circumstances, proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights, as for example, where the directors themselves are the malefactors.

Disclosure Requirements / Right of Inspection

Philippine stock corporations are required to file a general information sheet which sets forth data on their management and capital structure and copies of their annual financial statements with the SEC. Corporations must also submit their annual financial statements to the BIR. Corporations whose shares are listed on the PSE are also required to file current, quarterly and annual reports with the SEC and the PSE. Shareholders are entitled to require copies of the most recent financial statements of the corporation, which include a balance sheet as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board is required to present to shareholders at every annual meeting a financial report of the operations of the corporation for the preceding year.

Change in Control

The Bank's Articles and By-laws do not contain any provision that will delay, deter or prevent a change in control of the Bank.

Restriction on Issuance and Disposal of Shares

Existing stockholders who own an equivalent of at least 10 per cent of the issued and outstanding Common Shares of the Bank after the Offer are required under the Revised Listing Rules of the PSE applicable to companies applying for listing on the PSE First Board not to sell, assign or otherwise dispose of their Common Shares for a minimum period of 180 days after the Listing Date. Pursuant to the foregoing rule, the following shareholders , and own more than 10 per cent of the Bank's issued and outstanding capital stock after the Offer and are therefore subject to this lock up requirement.

Shareholder	No. of Shares subject to the 180-day lock-up provision	Percentage of Outstanding Shares Post-Offer
Alfredo M. Yao	22,199,910	6.47%
Zest-O Corporation	14,999,940	4.37%
Francis T. Lee	4,200,000	1.22%

Furthermore, pursuant to the PSE's rules on share issuances executed and fully paid for within 180 days prior to the start of the offer period with a transaction price lower than the offer price in the initial public offer, said shares shall be subject to a lock-up of 365 days from date of full payment thereof. Accordingly, the following stockholders shall be subject to this lock up requirement:

Shareholder	No. of Shares Subject to the 365-day Lock up Provision	Percentage of Outstanding Shares Post-Offer
Alfredo M. Yao	105,713, 856,	30.79%
Zest -O Corporation	71,428,286	20.80%
Francis T. Lee	20,000,000	5.83%
Leticia M. Yao	714, 286	0.21%
Armando M. Yao	714, 286	0.21%
Erlinda M. Yao	714, 286	0.21%
Jeffrey S. Yao	714, 286	0.21%
Roland R. Avante	48	0.00%
Amador T. Vallejos, Jr.	474	0.00%
Roberto A. Atendido	48	0.00%
Paterno H. Dizon	48	0.00%
Honorio O. Reyes-Lao	48	0.00%
Total	**200,000,000**	**58.25%**

Except for the foregoing the Bank's Articles and By-laws do not provide for any restriction of the transfer of the shares. However, the Bank is obliged to comply with the restrictions provided under the MORB.

Other Features and Characteristics of Common Shares

The Common Shares are neither convertible nor subject to mandatory redemption. All of the Bank's issued Common Shares are fully paid and non-assessable and free and clear from any and all liens, claims and encumbrances. All documentary stamp tax due on the issuance of all Common Shares has been fully paid.

Recent Issuance of Exempt Securities

PBB has not sold any securities, whether unregistered or exempt or any issuance constituting an exempt transaction under the Securities Regulation Code (SRC), during the past three (3) years.

Issues of shares

Subject to otherwise applicable limitations, the Bank may issue additional Shares to any person for consideration deemed fair by the Board, provided that such consideration shall not be less than the par value of the issued Shares. No share certificates shall be issued to a subscriber until the full amount of the subscription together with interest and expenses (in case of delinquent shares) has been paid and proof of payment of the applicable taxes shall have been submitted to the Bank's Corporate Secretary.

Share certificates

Certificates representing the Shares will be issued in such denominations as shareholders may request, except that certificates will not be issued for fractional shares. Shareholders wishing to split their certificates may do so upon application to the Bank's stock transfer agent. Shares may also be lodged and maintained under the book-entry system of the PDTC.

Mandatory tender offers

Under the SRC which took effect on August 8, 2000 and its implementing rules and regulations, it is mandatory for any person or group of persons acting in concert intending to acquire (a) at least 35 per cent of equity shares in a public company; or (b) at least 35 per cent of such equity over a period of 12 months, or (c) less than 35 per cent of such equity but such acquisition would result in ownership of over 51 per cent of the total outstanding equity of a public, to make a tender offer to all the shareholders of the target corporation on the same terms. The term "public company" refers to a corporation: (i) with a class of equity securities listed in an Exchange (e.g. PSE); or (ii) with assets of at least 50 million and having 200 or more shareholders with at least 100 shares each. In the event that the securities tendered pursuant to such an offer exceed that which the acquiring person or group of persons is willing to take up, the securities shall be purchased from each tendering shareholder on a pro-rata basis.

Fundamental matters

The Philippine Corporation Code provides that certain significant acts may only be implemented with shareholders' approval. The following require the approval of shareholders representing at least two-thirds of the issued and outstanding capital stock of the corporation in a meeting duly called for the purpose:

(i) amendment of the articles of incorporation;
(ii) removal of directors;
(iii) sale, lease, exchange, mortgage, pledge or other disposition of all or a substantially all of the assets of the corporation;
(iv) investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation was organized;
(v) issuance of stock dividends;
(vi) amendment of by-laws or delegation to the board of directors of the power to amend or repeal by-laws or adopt new by-laws;
(vii) merger or consolidation;
(viii) an increase or decrease in capital stock;
(ix) extension or shortening of the corporate term;
(x) creation or increase of bonded indebtedness; and
(xi) voluntary dissolution of the corporation.

Stock Transfer Agent

Stock Transfer Service, Inc. shall act as the Stock Transfer Agent for the purpose of authenticating and registering transfer of the Offer Shares as set forth in the Stock Transfer Agreement.

Accounting and auditing requirements

Philippine stock corporations are required to file copies of their annual financial statements with the Philippine SEC. Corporations whose shares are listed on the PSE are also required to file quarterly financial statements (for the first three quarters) with the Philippine SEC and the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a balance sheet as at the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board is required to present to shareholders at every annual meeting a financial report of the operations of the Bank for the preceding year. This report is required to include audited financial statements.

MARKET PRICE OF AND DIVIDENDS ON THE BANK'S SHARES AND RELATED SHAREHOLDER MATTERS

Market Information

Prior to the Offer, there has been no public trading market for any of PBB's common shares.

Holders of the Company's Common Shares

As of the date of this Prospectus, 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.	574	-
Paterno H. Dizon	58	-
Honorio O. Reyes- Lao	58	-
Benjamin R. Sta. Catalina, Jr.	58	-
Peter N. Yap	58	-
Total	242,000,000	100.00%

Note: The dilutive effect of the issuance of the Offer Shares on the abovementioned shareholders prior to the Offer assumes that the Existing Shareholders will not subscribe to the Offer Shares.

BANKING REGULATION AND SUPERVISION

Banks operating in the Philippines are regulated and supervised by the Bangko Sentral Ng Pilipinas ("BSP"). Under the General Banking Law of 2000 (Republic Act No. 8791) and the New Central Bank Act (Republic Act No. 7653), the BSP has the authority to regulate, supervise and monitor financial intermediaries in the Philippines. These financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (e.g., savings and mortgage banks, development banks, savings and loan associations), Islamic banks, rural banks and cooperative banks. Branches and agencies of foreign banks in the Philippines are also under the supervision of the BSP. The BSP also regulates and supervises non-bank financial institutions, such as investment houses and finance companies and other non-deposit taking entities performing quasi-banking functions and trust companies. The BSP, created by virtue of the R.A. No.7653, has the authority to enforce the laws, orders, instructions, rules and regulations promulgated by the Monetary Board.-

The BSP Manual of Regulations for Banks ("Manual" or "MORB") is the official reference book for rules and regulations issued by the Monetary Board covering banks in the country. The MORB outlines the regulations on the operations of banks, such as management, deposit and borrowing operations, lending, trust and other fiduciary businesses and other regulations applicable to the different types of banks. In addition to the rules and regulations issued by the Monetary Board, the BSP also issues supplementary guidelines through circulars, memoranda and other directives.

The implementation of the BSP rules and regulations is principally the concern of the Supervision and Examination Sector of the BSP. This sector of the BSP monitors and ensures banks' observance of applicable rules and regulations.

Permitted Activities of Thrift Banks

A thrift bank, in addition to the powers granted by existing laws, has the authority to perform any and all of the following: (1) grant loans, whether secured or unsecured; (2) invest in readily marketable bonds and other debt securities, commercial papers and accounts receivable, drafts, bills of exchange, acceptances or notes arising from commercial transactions ; (3) issue domestic letters of credit; (4) extend credit facilities to private and government employees; (5) extend credit against jewelry, precious stones and other similar articles; (6) accept savings and time deposits; (7) rediscount paper with the Land Bank of the Philippines, Development Bank of the Philippines and other government owned and controlled financial institutions; (7) accept foreign currency deposits; (8) act as correspondent for other financial institutions and (9) purchase or hold real estate as specified under Sections 51 and 52 of R.A. 8791, (10) offer other banking services as provided in Section 53 of R.A. No. 8791, such as: (i) receive in custody funds, documents and valuable objects; (ii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities; (iii) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business; (iv) act as managing agent, adviser or administrator of investment management/advisory/ consultancy accounts, upon prior approval of the Monetary Board and (v) rent out safety deposit boxes. Thrift banks may, upon prior approval by the Monetary Board, also perform the following services: (11) open current or checking accounts; (12) engage in trust, quasi-banking functions and money market operations; (13) act as collection agent for government entities, including but not limited to, the Bureau of Internal Revenue (BIR), Social Security System (SSS) and the Bureau of Customs (BOC); (14) act as official depository of national agencies and of municipal, city or provincial funds in the municipality, city or province where the TB is located; (15) issue mortgage and chattel mortgage certificates, buy and sell them for its own account or for the account of others, or accept and receive them in payment or as amortization of its loan; (16) invest in the equity of allied undertakings; (17) issue foreign letters of credit; and (18) pay/accept/negotiate import/export draft/bills of exchange.

Regulations

Based on the MORB, thrift banks are subject to the following guidelines and restrictions:

Minimum Capitalization

The minimum capitalization requirement for thrift banks (i) upon establishment of a new thrift bank, (ii) upon conversion of an existing bank to a thrift bank, and (iii) upon relocation of the head office of a thrift bank in an area of higher classification, is Php325 million. The said minimum capitalization requirement is lower if the head office of the thrift bank is outside Metro Manila. In 2011, the BSP increased the minimum capitalization requirement for thrift banks to establish branches depending on the location of the branches intended to be established. The required minimum combined capital accounts for thrift banks to establish their branches within Metro Manila was increased to Php 1.0 billion from Php 325.0 million.

Capital Adequacy Requirements

Based on BSP guidelines, the risk-based capital of a bank, expressed as a percentage of qualifying capital to total risk-weighted assets must not be less than 10 per cent. This minimum CAR is required at all times notwithstanding that supervisory reporting to the BSP is on a quarterly basis. Qualifying capital refers to the total of Tier 1 (core and hybrid) capital and Tier 2 (supplementary) capital, net of such deductions as required under existing regulations while risk-weighted assets is the total of credit risk-weighted assets, net of such deductions as required under existing regulations.

In May 2010, the BSP issued Circular No. 688 which revised the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks to comply with the requirements of the Basel Committee on Banking Supervision ("Basel 1.5"). The guidelines of this circular, which became effective on January 1, 2012, provides that the risk-based capital adequacy ratio of these banks, expressed as a percentage of qualifying capital to risk-weighted assets, must not be less than 10.0 per cent. However, the risk-weighted assets, was amended and is now defined as the sum of the credit risk-weighted assets and operational risk-weighted assets. The circular also provides that thrift banks which shall engage in derivatives transactions as allowed under existing regulations shall likewise include counter-party credit-weighted assets and/or market risk-weighted assets relative to such exposures based on the Revised Capital Framework for Philippine Banking System.

Reserve Requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve requirement during a particular week on an average basis, the bank will be subject to a penalty payable to the BSP based on the amount of the deficiency.

Thrift banks are required to maintain regular reserves of six per cent (6%) against peso demand, savings, and time deposits, negotiable order of withdrawal accounts, and deposit substitutes. The liquidity reserve requirement for thrift banks is equivalent to two per cent (2%). Thrift banks are also required to maintain regular reserves of four per cent (4%) against deposit substitutes evidenced by Repo Agreements and Long-term Negotiable Certificate of Time Deposits ("LTNCTDs").

On February 2, 2012, the BSP approved the three (3) operational adjustments in the reserve requirement policy. These adjustments are: (1) the unification of existing statutory reserve requirement and liquidity reserve requirement into a single set of reserve requirement; (2) the non-remuneration of the unified reserve requirement; and (3) the exclusion of vault cash (for banks) and demand deposits (for non-bank financial institutions with quasi-banking functions) as eligible forms of reserve requirement compliance.

Loan Limit to a Single Borrower

Under the General Banking Law and its implementing regulations, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any borrower shall at no time exceed 25~~.0~~ per cent of the net worth of such bank. The basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to the borrower. However, the ceiling may be increased for each of the following circumstances: (1) by an additional 10 per cent of the net worth of such bank: Provided, that the additional liabilities are adequately secured by trust receipts, shipping documents, warehouse receipts or other similar documents transferring or securing title covering readily marketable, non-perishable goods which must be fully covered by insurance; (2) by an additional twenty-five per cent (25%) of the net worth of such bank, provided that the additional loans, credit accommodations and guarantees are for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership (PPP) Program of the government duly certified by the Secretary of Socio-Economic Planning: Provided further, That the total exposures of the bank to any borrower pertaining to such infrastructure and/or development projects under the PPP Program shall not exceed 25 per cent of the net worth of such bank: Provided, furthermore, That the additional 25 per cent shall only be allowed for a period of three (3) years from the effectivity of BSP Circular No. 700 dated 6 December 2010: Provided, finally, that the credit risk concentration arising from total exposures to all borrowers pertaining to such infrastructure and/or development projects under the PPP Program shall be considered by the bank in its internal assessment of capital adequacy relative to its overall risk profile and operating environment. Said loans, credit accommodations and guarantees based on the contracted amount as of the end of the three (3)-year period shall not be increased but may be reduced and once reduced, said exposures shall not be increased thereafter; and (3) by an additional 15 per cent of the net worth of such bank; Provided, That the additional loans, credit accommodations and guarantees are granted to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank engaged in energy and power generation; Provided, further, That the oil companies qualify under the credit underwriting standards of the lending bank and the lending bank shall comply with Subsection X301.6 of the MORB on the guidelines in managing large exposures and credit risk concentration: Provided, furthermore, That the credit risk concentration arising from total exposures to all oil companies shall be considered by the bank in its internal assessment of capital adequacy relative to its overall risk profile and operating environment and shall be incorporated in the Internal Capital Adequacy Assessment process (“ICAAP”) document required to be submitted under Section X117 of the MORB: Provided, finally, That the additional 15 per cent shall only be allowed for a non-extendable period of two (2) years from the effectivity BSP Circular No. 712. Said additional loans, credit accommodations and guarantees outstanding as of the end of the two (2)-year period and in excess of 25 per cent of the lending banks net worth shall not be increased but shall be reduced and once reduced, said exposures shall not be increased thereafter.

Circular No. 654 issued by the BSP in May 2009 which amended the ceiling on loans to a single borrower provides subsidiaries and affiliates engaged in energy and power generation~~,~~ a separate individual limit of 25 per cent of bank’s net worth, provided the unsecured amount does not exceed 12.5 per cent of the said net worth, provided, further that these subsidiaries and affiliates are not related interests of any director, officer and/or stockholder of the lending bank/quasi-bank, except where such director, officer or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank/quasi-bank.

Subsequently, the BSP issued Circular No. 712 (2011) adopting the amendments of the Monetary Board increasing the ceiling on loans by an additional 10 per cent to 25 per cent of the net worth of the bank provided that certain types and levels of securities are provided or in case the funds will be used for undertaking infrastructure and/or development projects under the Public-Private Partnership (“PPP”) Program of the Government duly certified by the Secretary of Socio-Economic Planning. On February 9, 2011, the BSP issued an amendment to the regulations on the single borrower’s limit to increase the ceiling by an additional 15 per cent of the net worth of such bank, provided that the additional loans, credit accommodations and guarantees are granted to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank engaged in energy and power generation, provided, further that the conditions set forth in item b 3 of Section X303 of the Manual of Regulations for Banks are complied with, which include provisions that the additional 15 per cent shall only be allowed for a non-extendable period of two (2) years from .and that said additional loans, credit accommodations and guarantees outstanding as of the end of the two (2)-year period and in excess of 25 per cent of the lending bank’s net worth shall not be increased but shall be reduced and once reduced, Said exposures shall not be increased thereafter.

In 2011, the BSP also issued Circular No. 734 which amended the credit exposure limits to single borrowers. The amendment provided that: "loans and other credit accommodations and usual guarantees by a bank to any non-bank entity, whether locally or abroad, shall be subject to the limits prescribed in the MORB and that “loans and other credit accommodations as well as deposits and usual guarantees by a bank to any other bank, whether locally or abroad, shall also be subject to the limits prescribed in the MORB or Php100.0 million, whichever is higher: Provided, That the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions. The Circular also provided that the outstanding balance of the demand deposit account in a private depository bank being used by the thrift banks/rural banks/coop banks with authority to accept/create demand or current deposits, to fund checks cleared through the said private depository bank shall also be exempt from the SBL imposed under R.A. No. 8791 even if there is a government owned or controlled financial institution in the area.

Priority Lending Requirements

BSP regulations currently provide that banks should set aside an amount equivalent to 25 per cent of their loanable funds for loans to the agricultural sector, with 10per cent of such funds being made available exclusively to agrarian reform beneficiaries. Banks may, as an alternative compliance, buy debt securities whose proceeds shall be used for lending to the agricultural and agrarian reform sectors, provided that such debt securities are issued after April 20, 2010 and provided further that such debt securities are expressly declared eligible by the Department of Agriculture, or subscribe to preferred shares of stock of accredited financial institutions, or invest in loans and other credits that are granted after April 20,2010 listed in the MORB and declared eligible by the Department of Agriculture.

BSP regulations also provide that until June 2018, banks are required to set aside a certain percentage of their total loan portfolio equal to at least eight per cent (8%) of the total loan portfolio for micro and small enterprises and two per cent (2%) for medium-sized enterprises, based on their balance sheet as ~~at~~ of the previous quarter, for lending to such enterprises. Investments in government securities other than the instruments offered by the government-controlled Small Business Corporation will not qualify as alternative compliance. However, paid subscriptions of preferred shares of stock of the Small Business Corporation or loans from whatever sources granted to Barangay Micro Business Enterprises.

Number and Qualifications of Directors and Officers

Pursuant to RA 8791, a bank shall have at least five and not more than 15 members of the Board of Directors at least two of whom shall be independent directors. However in case of a bank merger or consolidation, the number of directors may be increased to the total number of directors of the merging or consolidating banks but in no case to exceed 21. BSP regulations also require that a bank shall have 20 per cent but not less than two (2) independent directors in their board.

Bank directors and officers must meet certain minimum qualifications. For instance, directors must be at least 25 years old, have a college degree or have at least five years' business experience, must have attended a special seminar on corporate governance for board of directors conducted or accredited by the BSP, and must be fit and proper for the position of a director of the bank, while officers must be at least 21 years old, have a college degree, or have at least five years' banking or trust experience and he must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for the position of a director of a bank or for a particular officer position in the bank, the following matters must be considered: integrity/probity, competence, education, diligence and experience/training.

Certain persons are disqualified from acting as bank directors, including (a) persons who have been convicted of an offense involving moral turpitude or have been declared judicially insolvent or incapacitated to contract, (b) directors or officers who have been removed by the Monetary Board, (c) persons who refuse to disclose business interests, (d) resident directors who have been absent for more than half of directors' meetings, (e) persons who are delinquent in their obligations, (f) persons who have been found to have willfully refused to comply with applicable banking laws or regulations and (g) persons who have been dismissed for cause from any institution under the supervision of the BSP. In addition, except as permitted by the Monetary Board, directors or officers of banks are also generally prohibited from simultaneously serving as directors or officers of other banks or non-bank financial intermediaries.

Under the Manual, an independent director shall have the additional qualifications that he: (a) is not or has not been an officer or employee of the bank, its subsidiaries affiliates or related interests during the past three years from his election; (b) is not a director or officer of the related companies of the bank's majority stockholder; (c) is not a majority stockholder of the bank or any of its related companies or any of its majority shareholder; (d) is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or majority shareholder of the bank or any of its related companies; (e) is not acting as a nominee or representative of any director or substantial shareholder or any of its related companies; and (f) is not retained as a professional adviser, consultant or counsel of the bank and is independent of the management and free from any business or other relationship.

Loans to DOSRI/Subsidiaries and Affiliates

The amount of individual outstanding loans, other credit accommodations and guarantees to Directors, Officers, Stockholder and Related Interest (DOSRI) of the Bank should not exceed an amount equivalent to their unencumbered deposits and book value of DOSRI's paid-in capital investment in the bank. Unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI should not exceed 30 per cent of their respective loans, other credit accommodations and guarantees. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100 per cent of the bank's net worth or 15 per cent of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30 per cent of the aggregate ceiling or of the outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the ceiling on unsecured loans, other credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit guarantees and guarantees every week.

The total loans, other credit accommodations and guarantees of a bank to each of its subsidiaries and affiliates should not exceed 10 per cent of the lending bank's net worth and the unsecured portion thereof should not exceed five per cent (5%) of such net worth. The total loans, other credit accommodations and guarantees of the lending bank to all its subsidiaries and affiliates should likewise not exceed 20 per cent of the bank's net worth, provided that such subsidiaries and affiliates are not related interest of any of the director, officer and/or stockholder of the lending bank.

Finally, the total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates engaged in energy and power generation should not exceed 25 per cent of the net worth of the bank and the unsecured loans, other credit accommodations and guarantees to each of said subsidiaries and affiliates shall not exceed 12.5 per cent of the bank's net worth, provided that such subsidiaries and affiliates are not related interest of any of the director, officer and/or stockholder of the lending bank. However, loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations as well as interbank call loans shall be excluded in determining compliance with the ceilings prescribed.

Guidelines on General Loan Loss Reserves

Under existing BSP regulations, a general provision for loan losses shall also be set up as follows: (i) five per cent (5%) of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations: Provided, that loans restructured/rescheduled under the debt relief and rehabilitation program for borrowers adversely affected by the super typhoons shall be treated as regular loans and shall be subject to the general loan loss provision of one per cent (1%) instead of five per cent (5%) applicable to restructured loans: Provided, further, that the restructuring/rescheduling of said loans are effected not later than 31 December 2011; and (ii) one per cent (1%) of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws and regulations.

Restrictions on Branch Openings

The Thrift Banks Act provides that thrift banks shall have unrestricted branching rights within the region, free from any assessment or surcharges required in setting up a branch, but under coordination with the BSP which will have to assess that there are qualified personnel, control and procedures to operate the branch. Furthermore, Section 20 of the General Banking Law provides that commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 728 issued on June 23, 2011 provides various minimum capitalization requirements for branches of thrift banks, depending on the location of the branch, ranging from a minimum of Php2.5 million for branches of thrift banks to be located in fifth and sixth class municipalities to a maximum of Php15.0 to Php25.0 million for the same to be located in Metro Manila, depending on the date of implementation. A bank must first comply with this minimum capital requirement in order to be given authority to establish more branches.

Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch must be opened within six months from the date of approval (extendable for another six-month period, upon the presentation of justification there for). Pursuant to BSP Circular No. 727, issued on June 23, 2011, which amended the provisions of the Manual on branching guidelines, banks shall be allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig, Quezon and San Juan, ("restricted areas"). BSP Circular No. 728 lifted the restriction in these areas starting July 1, 2014, provided that the requirements on the capital levels are met, the usual prerequisites and the payment of special licensing fees to the BSP of Php20million and Php15 million per approved branch application of a universal/commercial bank and thrift bank, respectively. The application for new branches in these restricted areas will be accepted by the BSP only until October 11, 2011. Approved branches in the restricted area shall be opened on or before June 30, 2014.

Anti-Money Laundering Law

The Anti-Money Laundering Act was passed on September 29, 2001 and was amended on March 23, 2003. Under its provisions, (i) certain financial intermediaries including banks, OBUs, quasi-banks, trust entities, non-stock savings and loan associations, foreign exchange corporations/dealers, remittance agents and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, (ii) insurance companies and/or institutions regulated by the Insurance Commission and (iii) securities brokers, dealers, salesmen, associated persons of brokers and dealers, investment banks, mutual funds, and certain other entities regulated by the Philippines SEC, and insurance companies, pre-need companies and other entities supervised and/or regulated by the Philippines insurance commission are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of Php0.5 million within one (1) banking day.

Institutions that are subject to the Anti-Money Laundering Act are also required to establish and record the identities of their clients based on identification documents issued by official authorities. In addition, all records of transactions of the customers, including the closure of the account are required to be safe-kept for at least 5 years. These institutions are also required to submit a "suspicious" transaction report if there is a reasonable ground to believe that the amounts processed are related to the proceeds of money laundering activities pursuant to the circumstances under the Anti-Money Laundering Act.

BSP regulations also require covered institutions to adopt a comprehensive and risk based Money Laundering and Terrorist Financing Prevention Program. Furthermore, universal and commercial banks in the Philippines are required to have an electronic money laundering transaction monitoring system. Each system should have capabilities to detect and monitor pattern or patterns of suspicious transactions and generate reports for both suspicious and covered transactions.

Pursuant to BSP Circular No. 706 dated January 5, 2011, all covered and suspicious transactions are to be reported to the Anti-Money Laundering Council ("AMLC")~~,~~ within 10 working days from date of occurrence by the covered institution.

Institutions that are subject to the Anti-Money Laundering Act are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for five (5) years from the date of a transaction. Records of closed accounts must also be kept for five (5) years after their closure.

Trust Regulations

With prior approval of the Monetary Board, banks may engage in trust and other fiduciary business under Chapter VII of R.A. No. 337, as amended.

Banks applying for authority to perform trust and other fiduciary business must comply with the minimum required capitalization prescribed in the MORB. For thrift banks with head office located in Metro Manila and Cities of Cebu and Davao and all other areas, that minimum amount of capital is Php1.0 billion and Php650 million, respectively.

Before it may engage in trust and other fiduciary business, a bank shall comply with the certain requirements, such as: (a) the applicant has been duly licensed or incorporated as a bank or created as such by special law or charter; (b) the articles of incorporation or governing charter of the institution shall include among its powers or purposes, acting as trustee or administering any trust or holding property in trust or on deposit for the use, or in behalf of others; and (c) the by-laws of the institution shall include provisions on: (1) the organization plan or structure of the department, office or unit which shall conduct the trust and other fiduciary business of the institution; (2) the creation of a trust committee, the appointment of a trust officer and subordinate officers of the trust department; and (3) a clear definition of the duties and responsibilities as well as the line and staff functional relationships of the various units, officers and staff within the organization; (d) the bank's operation during the preceding calendar year and for the period immediately preceding the date of application has been profitable; and (e) the Capital Adequacy Ratio (CAR) of the institution is at least 12 per cent, among others.

A bank with newly issued trust license will also comply with the pre-operating requirements as prescribed in the MORB.

THE PHILIPPINE BANKING INDUSTRY

Overview

Under Republic Act No. 8791, "The General Banking Act of 2000" (the "General Banking Law"), the following are the classifications of banks: universal banks, commercial banks, thrift banks (comprised of private development banks, loan associations, savings and mortgage banks, and stock savings), rural banks and cooperative banks.

Commercial banks, aside from the general powers granted to corporations, have banking capabilities which include accepting drafts and issuing letters of credit, accepting and creating demand deposits, lending money on a secured or unsecured basis, buying and selling of foreign exchange and gold and silver bullion, discounting and negotiation of promissory notes, drafts, bills of exchange and other evidences of indebtedness, acquiring marketable bonds and other debt securities, and receiving other types of deposits and deposit substitutes.

Universal banks have all of the banking capabilities of commercial banks. In addition, universal banks also have the authority and powers of an investment house which also allows them to make an investment in allied and non-allied enterprises, according to the provisions of rules, regulations and the law. Universal and commercial banks that are publicly-listed are given the right to acquire up to 100 per cent of the voting stock of only one other commercial or universal bank.

As of September 2012, based on the statistics gathered from the BSP website, there are 37 universal and commercial banks with 17 universal banks and 20 commercial banks in operations.

Also as of the same date, there are 69 thrift banks in operations. Thrift banks perform basic banking functions like accepting deposits and investing this accumulated capital by granting secured and unsecured loans, lending money for the construction and upgrade of homes, purchasing debt securities that are readily marketable, accounts receivables, drafts, acceptances, bills of exchange, notes arising out of commercial transactions and commercial papers. Thrift banks also have the option to lend to businesses, particularly small-and-medium-enterprises, involved in agriculture, housing, services, industries, and other financial and allied services for their short-term working capital as well as their medium- and long-term financial requirements.

Based on the statistics of the BSP, as of September 2012, there were a total of 603 rural and cooperative banks in the Philippines. Rural areas are serviced by rural banks that have a primary function of making credit available and providing easy access on reasonable terms. The loan and advances portfolio of rural banks is commonly made up of the normal credit requirements of farmers and fishermen, along with the credit requirements of merchants and cooperatives. Cooperative banks cater specifically to the local cooperative and its members by providing banking, financial and credit services as well as performing any or all of the banking services offered by other types of banks, upon the approval of the BSP.

The enactment of Republic Act No. 7721 in 1994 allowed the entry of foreign banks into the local banking industry by allowing them to acquire up to 60 per cent of the voting stock of an existing bank or a newly-formed banking subsidiary, or to set up branches that are granted full banking authority.

Further liberalization of the banking industry ensued when the General Banking Law was enacted in 2000. This new law empowered the Monetary Board to allow foreign banks to acquire up to 100 per cent of the voting stock of a local bank. The provisions under the General Banking Law, foreign banks that had already acquired up to 60 per cent of the voting stock of a domestic bank, are allowed to further purchase voting shares that will increase their ownership up to 100 per cent.

At present, 14 foreign banks have established branches in the Philippines while two foreign banks have subsidiaries. Foreign banks hold 13 per cent of the total resources of the Philippine Banking System.

The BSP has been encouraging the creation of larger, stronger and more internationally competitive banks through mergers and acquisitions in the banking industry by offering added benefits and incentives to merged or consolidated banks. Based on BSP data, ever since the latest package of incentives was offered in September 1998, a total of 32 mergers, acquisitions and consolidations amongst banks have taken place. The resulting increase in market concentration arising from the recent mergers has not negatively affected the competitive landscape of the banking industry since the remaining players have maintained competitive positions.

Information, as of the dates indicated, on the five (5) most prominent private domestic commercial banks in the Philippines , as obtained from the regular consolidated quarterly reports filed in the Philippine SEC, are compared in the following table.

Name	Market capitalization[1]	Total capital[2]	Total assets[2]	Gross loans[2]	Customer deposits[2]	No. of branches
In Php millions						
BDO	225,953	96,962	1,097,349	670,146	858,569	745
Metropolitan Bank & Trust Co.	193,192	116,504	958,384	454,341	382,135	807
Bank of the Philippine Islands	278,107	90,530	842,616	465,159	670,335	813
Rizal Commercial Banking Corp.	52,479	39,935	345,005	161,133	255,460	393
Philippine National Bank	47,351	39,222	316,284	115,550	237,534	334

Notes:

1. *Source: Closing prices as of October 10, 2012*
2. *Source: Bloomberg, Figures are as of December 31, 2011.*
3. *Number of branches was provided by each of the respective banks as of March 31, 2012.*

Thrift Bank Industry

Of the total thrift banks in operations, 17 thrift banks are linked to domestic, foreign or non-bank financial institutions while 52 are non-linked thrift banks. While linked thrift banks comprise only 25 per cent of the total thrift banks in operations, these linked thrift banks dominate the thrift bank industry and account in excess of 70 per cent of the industry's total assets. The country's largest five thrift banks in asset size were BPI Family Savings Bank, Philippine Savings Bank, RCBC Savings Bank, Planters Development Bank, and Sterling Bank of Asia.

Based on 2011 data gathered from the Office of Supervisory Policy Development, Supervision and Examination Sector of the BSP, as of December 2011, majority of the country's thrift banks operate in Luzon and specifically the National Capital Region.

As of December 31, 2011, Luzon and NCR had 625 and 542 head offices and branches, respectively, which accounts for a 41.9 per cent share and a 35.7 per cent share of the total of 1,491 thrift banking offices nationwide. In Luzon, the highest concentration of offices was in the CALABARZON and Central Luzon areas with 274 and 171 head offices and branches respectively. The Visayas and Mindanao regions only account for a combined 22.4 per cent share of the total thrift banking offices nationwide with heavy concentration in Central Visayas, Western Visayas, Davao and Northern Mindanao.

The increasing regional presence of thrift banks, has allowed them to provide both traditional and electronic banking platforms to bring core financial products and services to a wider client base. Thrift banks have added 78 ATM units in 2011 to increase their total to 1,229 units nationwide. Linked thrift banks had 798 ATM units in total while non-linked thrift banks only had a total of 431 ATM units. ATM units were also heavily concentrated in the NCR and in Luzon which had 603 and 393 units respectively.

Meanwhile, the Visayas and Mindanao regions had 27 and 18 additional ATM units respectively. As of end-December 2011, a total of 22 thrift banks already offered electronic and mobile banking services through mobile/non-mobile phones and the internet. Meanwhile, there were seven banks that had cash card operations, three banks with electronic wallet services and two banks which took part in the Bureau of Internal Revenue's Electronic Filing and Payment System.

The thrift banking industry continued to play a key role in directing investment inflows to strategic economic sectors.. Over the two year period, or from 2010 to 2011, the industry's gross loans increased by approximately seven per cent, from Php361.9 billion to Php387.5 billion. Loans were granted mainly for real estate, construction, renting and business activities, individual consumption purposes and financial intermediation

The table below shows the loan portfolio structure of the thrift bank industry for the past two (2) years:

Sector	% December 2010	% December 2011
Real Estate, renting & business activities& construction	36.3	36.8
Loans to individuals for consumption purposes	25.4	25.3
Financial Intermediation	12.1	12.6
Wholesale and retail trade	7.0	6.5
Agriculture, Fishery etc.	5.1	5.2
Other community, social, personal services	3.7	3.6
Manufacturing	3.6	4.0
Transport, storage, communication	2.0	1.7
Private households	1.2	1.3
Others	3.5	3.2

The thrift bank industry remains a major provider of consumer financing, including residential real estate loans, auto loans, and credit card services. The industry also provides necessary funding to the micro, small and medium enterprises as seen in the industry's overall compliance with the mandatory credit allocation to these sectors.

Deposit liabilities remain the major source of funding for the lending activities of thrift banks. In 2011, deposit liabilities accounted for Php495.2 billion or 81.5 per cent of the industry's total resources. Most of the industry's deposit liabilities or 89.3 per cent were in peso deposits; thrift bank clients also showed a preference for higher yielding deposits with time deposits comprising more than half of total peso and foreign denominated deposits.

Selected government policies and regulations that are applicable to the Philippine Banking System

The BSP is very active in regulating the Philippine banking industry through a framework that imposes strict guidelines on corporate governance, management, capital adequacy, provision for NPLs and anti-money laundering. Changes to these guidelines or introduction of additional regulations can be enacted by the BSP to control any specific line of business. The following policies are included among those deemed by the Bank as having the potential to affect its results of operations.

Limitation on the Real Estate Loans of Universal Banks. The BSP issued Circular No. 600 in February 2008 that lowered the total loan base by removing interbank loans from the computation of the aggregate limit on real estate loans in addition to changes also made in the inclusions and exclusions being followed in the computation.

The BSP and the Monetary Board have recently approved several measures that supplement Circular No. 600 in August 2012,that aims to increase the level of monitoring of banking industry exposures to the real estate industry. The BSP has included previously excluded investments/loans into the computation of a bank's total exposure to the real estate industry, equivalent to 20 per cent of total loan portfolio, such as: (a) loans released to construction companies and land developers that are involved in socialized and low-cost housing; (b) investment in securities, both debt and equity, whose proceeds are intended to finance real estate related activities; (c) loans released to individuals for the purpose of acquiring and constructing residential dwellings with the intention of being occupied.

Changes to unit investment trust fund ("UITF") Regulations. The BSP issued Circular No. 447 in September 2004 to set guidelines for the set up and marketing of new products to be known as UITFs, and had the purpose of replacing common trust funds or converting them into UITFs within a period of two years from the issuance of the circular. UITFs are financial products managed by trust entities that represent grouped trust funds that can be denominated in any acceptable currency. Eligible assets of UITFs include securities issued by or guaranteed by the BSP or the Government, bank deposits, exchange listed securities, tradable securities issued by a foreign country's government, loans traded in an organized market, marketable financial instruments that are being traded in an organized exchange, loans derived from repo agreements which are being transacted through an exchange recognized by the SEC and such other tradable categories and investment outlets as the BSP may allow. These assets have to undergo a mark-to-market valuation on a daily basis. The BSP has stated that it aims to improve the reputation of pooled funds to investors and align the management of pooled funds with international best practices. The BSP issued Circular No. 593 in January 2008 to upgrade the level of risk disclosure on investing in UITFs, by asking banks to assess and match their clients' risk-return orientation and suitability to the certain class of UITF that they want to participate in through a client suitability assessment that is updated at least every three years. The Bank has worked with the BSP to promote risk disclosure by giving advice and guiding clients when they choose investment outlets that match their risk tolerance, objectives, experience and preference.

Exemption of Paired ROP Warrants from Capital Change for Market Risk. The BSP issued Circular No. 606 in March 2008 that effectively gives exemption to warrants paired with ROP Global Bonds from capital charge for market risk up to the point that the bank's holdings of bonds paired with warrants does not exceed 50 per cent of total qualifying capital in line with the Government's Paired Warrants Program. The Bank has such investments to give it greater flexibility for deploying capital.

Regulations that cover the Derivatives Activities of Banks. The BSP issued Circular No. 594 in January 2008 that made changes to the existing regulations that cover the derivatives activities of banks, which supports and allows banks and their clients to have a wider scope of opportunities to manage financial risk and diversify investments through the use of derivatives. In addition, the BSP issued Circular No. 688 on May 2010 to set guidelines in determining and computing of the credit risk weighted assets for banks that will participate in derivatives activities as end-users for the purpose of hedging and/or under limited-use authority. The Bank expects greater competition in the swaps and other derivative transactions that are permitted under these regulations. The Bank has already obtained its limited dealer authority for Foreign Exchange Forwards (including non-deliverables), Foreign Exchange Swaps, Interest Rate Swaps, Cross Currency Swaps, Asset Swaps, Forward Rate Agreements, European Vanilla Foreign Exchange Options and Credit Default Swaps. Meanwhile, there are currently no changes in the application process.

Reclassification of Financial Assets between Categories. The BSP issued Circular No. 628 dated October 31, 2008, to amend Circular No. 626 dated October 23, 2008 and the Resolution of the Monetary Board No. 1423 dated October 30, 2008, which approved the guidelines governing the reclassification of financial assets between categories. As a result, financial institutions shall be allowed to change a portion or all of their financial assets belonging to "held for trading" or "available for sale" categories to the "held to maturity" or "unquoted debt securities classified as loans" categories beginning July 1, 2008.

Guidelines on Securities Borrowing and Lending Transactions. Guidelines by the PSE on securities borrowing and lending ("SBL") cover SBL transactions between local or foreign lenders and local or foreign borrowers. The BSP issued Circular No. 611, series of 2008, to provide guidelines on SBL transactions made in the PSE that involves the borrowings by foreign entities of PSE-listed shares from local lenders and investors. In May 2008, the BSP Monetary Board allowed the issuance of BSP Registration documents to include the PSE-listed shares of stock borrowers to purchase foreign exchange from the banking system for remittance abroad using the Peso sales proceeds of the borrowed shares that also includes the related income from the SBL transaction, examples of which are rebates or shares in the income earned on the reinvestment of cash collateral, PSE-listed shares used as collateral and dividends earned on the Peso denominated government securities.

Taxes. All banks are subjected to tax rules that are specifically applicable to Financial Institutions. In November 2005, the Government increased the gross receipts tax, which is applicable to all of the Bank's non-interest income, by two per cent (2%) from five per cent (5%) to seven per cent (7%). Changes in the regulatory or tax environment applied to the Philippine banking industry could have a material impact on the Bank's financial position and results of operations.

THE PHILIPPINE STOCK MARKET

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Bank, the Underwriter, or any of their respective subsidiaries, affiliates or advisers in connection with sale of the Offer Shares.

Brief History

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system which integrates all bid and ask quotations from the bourses.

In June 1998, the SEC granted the PSE Self-Regulatory Organization ("SRO") status, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. As of June 30, 2012, the PSE has an authorized capital stock of Php97.8 million, of which Php61.00 million is issued and outstanding. Each of the 184 member-brokers was granted 50,000 shares of the new PSE at a par value of Php1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member-broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President. On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Companies are listed either on the PSE's First Board, Second Board or the Small and Medium Enterprises Board under the following sectors: financial, industrial, holding firms, property, services and mining and oil. Each index represents the numerical average of the prices of component stocks. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006 simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. The PSEi includes 30 companies listed on the PSE. As of the date of this Prospectus, the proposed rules for listing in the Main and SME Boards are pending approval by the SEC.

With the increasing calls for good corporate governance, the PSE has adopted an online disclosure system to improve the transparency of listed companies and to protect the investing public.

The table below sets forth movements in the composite index from 1995 to January 14, 2013 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Selected Stock Exchange Data

	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization	Combined Value of Turnover
Calendar Year			*(in ₱ billions)*	
1995	2,594.2	205	1,545.7	379.0
1996	3,170.6	216	2,121.1	668.9
1997	1,869.2	221	1,261.3	588.0
1998	1,968.8	221	1,373.7	378.9

Calendar Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization	Combined Value of Turnover
			(in ₱ billions)	
1999..	2,142.9	223	1,936.5	668.8
2000..	1,494.5	226	2,576.5	58.61
2001..	1,168.1	228	2,143.3	407.2
2002..	1,014.4	232	2,083.2	780.9
2003..	1,442.4	235	2,973.8	357.6
2004..	1,822.8	236	4,766.2	206.6
2005..	2,096.0	237	5,948.4	383.5
2006..	2,982.5	240	4,277.8	1,145.3
2007..	3,621.6	244	7,977.6	1,338.3
2008..	1,872.9	246	4,069.2	763.9
2009..	3,052.7	248	6,029.1	994.2
2010…………………………………..	4,201.1	253	8,866.1	1,207.4
2011………………..................................	4,372.0	253	8,697.0	1,422.6
2012	5,812.7	268	10,850	1,420
January 14, 2013	6,093.9	267	11,230	65.7

Source: Philippine Stock Exchange, Inc.

Trading

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bids or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment for purchases of listed securities must be made by the buyer on or before the third trading day after the trade.

Trading on the PSE starts at 9:30 a.m. and ends at 3:20 p.m. with a ten-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays when the BSP clearing house is closed.

Minimum trading lots range from five (5) to 1,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50 per cent, or down by 50 per cent, in one day (based on the last traded price or adjusted closing price, as the case may be), or the maximum allowable price difference between an update in the Last Traded Price ("LTP") of a given Security and its preceding LTP that is equal to a percentage set by the PSE based on its trade frequency is breached, the price of that security is automatically frozen by the PSE, unless there is an official statement from the relevant company or a Government agency justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If the issuer fails to submit such explanation, a trading halt is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the issuer is disseminated, subject again to the trading band.

The maximum allowable price difference between an update in the LTP of a given security and its preceding LTP percentages are as follows: Stocks that traded 20 times or less in the past six (6) months have a threshold of 20 per cent; stocks that traded 500 times or less but greater than 20 times in the past six (6) months have a threshold of 15 per cent; stocks that traded more than 500 times in the past six (6) months have a threshold of 10 per cent.

Settlement

The Securities Clearing Corporation of the Philippines ("SCCP") is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. It is responsible for (a) synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also PSE Brokers; (b) guaranteeing the settlement of trades in the event of a Trading Participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund, and (c) performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three days after the transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the PDTC's book-entry system. Each PSE Broker maintains a Cash Settlement Account with one of the two existing settlement banks of SCCP, which are Banco de Oro Unibank, Inc. and Rizal Commercial Banking Corporation. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its new clearing and settlement system called Central Clearing and Central Settlement ("CCCS") on May 29, 2006. CCCS employs multilateral netting whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

Scripless Trading

In 1995, the Philippine Depository and Trust Corporation (formerly the Philippine Central Depository, Inc.) was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On 16 December 1996, the PDTC was granted a provisional license by the SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, Rizal Commercial Banking Corporation and Banco de Oro Unibank, Inc.

In order to benefit from the book-entry system, securities must be immobilized in the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation ("PCD Nominee"), a corporation wholly owned by the PDTC, whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of PCNC through the PDTC participant will be recorded in the Company's registry. This trust arrangement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares through his participant will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system and, with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (trading date plus three trading days) that there are adequate securities in the securities settlement account of the participant-seller and adequate clear funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP CCCS system, in accordance with the PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a stockholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which the PCD Nominee will transfer back to the stockholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of shares lodged under the name of PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporation's books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled confirmation advices is issued in the name of PCD Nominee Corp. to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominees' name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agent's books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing the broker from its current "de facto" custodianship role.

Amended Rule on Lodgement of Securities

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirements, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

Further, the PSE apprised all listed companies and market participants on May 21, 2010 through Memorandum No. 2010-0246 that the Amended Rule on Lodgment of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the Exchange shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the SEC.

For listing applications, the amended rule on lodgment of securities is applicable to:

a. The Rights Shares/securities of the applicant company in the case of an initial public offering;
b. The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the SEC in the case of a listing by way of introduction;
c. New securities to be offered and applied for listing by an existing listed company; and
d. Additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

For new companies to be listed at the PSE as of July 1, 2009 the usual procedure will be observed but the transfer agent of the companies shall no longer issue a certificate to the PCD Nominee Corporation ("PCNC") but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on listing date.

For existing listed companies, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCNC Jumbo Certificates and upon such advice the PDTC shall surrender all PCNC Jumbo Certificates to the transfer agent for cancellation. The transfer agents shall issue a Registry Confirmation Advice to PCNC evidencing the total number of shares registered in the name of PCNC in the issuer's registry as of the confirmation date.

Issuance of Certificated Shares

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply to PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a stockholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of shares lodged under the name of PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of certificated shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of beneficial ownership in the shares to certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until certificated shares shall have been issued by the relevant company's transfer agent.

PHILIPPINE TAXATION

The information set out below concerning certain provisions of Philippine tax law is based upon circumstances, laws and their interpretations in effect as of the date of this Prospectus, all of which are subject to change. This information is general in nature and is not exhaustive. Prospective investors should consult their own tax advisers with respect to the tax aspects of an investment in the Shares.

Corporate Income Tax

In general, a tax of thirty-five per cent is imposed upon the taxable net income of a domestic corporation from all sources (within and outside the Philippines). Gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust fund and similar arrangements as well as royalties from sources within the Philippines are however subject to a final withholding tax of twenty per cent of the gross amount of such income.

Taxation for Banks

Banks is subject to regular corporate income tax, based on their taxable income at a tax rate of 30 per cent.

Taxable net income refers to items of income specified under Section 32 A of the Tax Code less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A minimum corporate income tax (MCIT) of 2 per cent of the gross income of a bank is payable beginning on the 4th year of operations of the bank only if the MCIT is greater than the regular income tax of 30 per cent computed on net taxable income. Any excess MCIT paid over the computed regular tax can be carried forward as tax credit for the three immediately succeeding years. For purposes of MCIT, gross income for those engaged in the sale of service means gross receipts less sales returns, allowances, discounts and cost of services. In case of banks, cost of services includes interest expense but income derive from other businesses of the banks are included in the gross income subject to MCIT but the necessary expense incurred for the said income are not allowed as deduction.

An Improperly Accumulated Earning Tax (IAET) equivalent to 10 per cent of improperly accumulated taxable income of a corporation is not applicable to banks.

Since banks are in the regular business of lending, interest income derived by banks which is generally considered passive income by non-banks, is considered an ordinary income of banks subject to 30 per cent income tax so long as it complies with the requirements as laid down in Revenue Regulation No. 13-00. However, the amount of interest expense shall be reduced by a value equal to 33 per cent of the interest income subject to final tax to derive the interest expense that may be allowed as deduction from gross income.

The Tax Code does not allow the deduction of interest expense arising from transactions with related party wherein:

a) The borrower is an individual directly or indirectly owing more than 50 per cent in value of the outstanding capital stock of the bank;

b) More than 50 per cent in value of the outstanding stock of both the borrower and the bank is owned directly or indirectly, by or for the same individual, if the borrower is a personal holding company or a foreign personal holding company.

Similarly, section 36 (B) of the Tax Code disallows to deduct bad debts in the case related-party transactions as mentioned in the case of interest expense.

Pursuant to Revenue Regulation 05-99 as amended by Revenue Regulation 25-02 in order for bank to be able to claim bad debts as an allowable deduction, it must secure a certification from the BSP that the accounts are worthless and can be written off subject to the final determination by the Bureau of Internal Revenue that bad debts being claimed by the banks are worthless and uncollectible.

However, its passive income such an interest income earned on its bank deposits is subject to final withholding tax.

Banks are subject to gross receipt tax (GRT) which is a tax levied on the gross receipts of financial institutions.

An exception to the rule that those not habitually engaged in real estate business shall be subject to final tax on the sale of capital asset, is a sale of real property of banks which is considered as an ordinary asset, the income from the sale of which is subject to regular corporate income tax of 30 per cent . Thus, the gain in the sale of land and/or building is subject to creditable withholding tax of 6 per cent based on the zonal value or selling price, which shall be withheld by the buyer and can be used as a credit against the bank's taxable income in the year that the gain is realized.

The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which shall be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument which is subject to regular income tax rates, except those instruments with maturity of more than five (5) years.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individual at any one time, which means that at the time of the original issuance in the primary market or at the issuance of each tranche in case of instruments sold or issued in tranche.

Interbank call loans with a maturity period of not more than five days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes. The interbank call loans are not subject to documentary stamp tax except of it has a maturity of more than seven (7) days.

Tax on Dividends

Under current law, cash and property dividends received from a domestic corporation by individual stockholders who are either citizens or residents of the Philippines are subject to tax of 10 per cent. Cash and property dividends received by domestic corporations or resident foreign corporations are not subject to tax.

Cash and property dividends received from a domestic corporation by a non-resident foreign corporation not engaged in trade or business in the Philippines are generally subject to tax at the rate of 35 per cent subject to applicable preferential tax rates under tax treaties enforced between the Philippines and the country of domicile of such non-resident foreign corporations, the 32 per cent rate for dividends paid to a non-resident foreign corporation maybe reduced to a special 15 per cent rate under the National Internal Revenue Code if the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign sourced dividends or ii) the country of domicile of the non-resident foreign corporation allows a credit equivalent to 17 per cent for taxes deemed to have been paid in the Philippines.

Subject to applicable preferential tax rates under treaties in force between the Philippines and the country of domicile of such non-resident foreign corporation, cash and/or property dividends received from a domestic corporation by a non-resident corporation are subject to final withholding tax at the rate of 15 per cent; provided that the country in which the non-resident foreign corporation is domiciled (i) imposes no taxes on foreign–sourced dividends or (ii) allows a credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to 20 per cent, which represents the difference between the regular income tax of 35 per cent on corporations and the 15 per cent tax on dividends.

Taxes on Capital Gains

Net capital gains realized by a resident or non-resident other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares outside the facilities of the PSE, unless an applicable treaty exempts such gains from tax or provides for preferential rates, are subject to tax as follows: (a) five (5) per cent on gains not exceeding Php100,000; and (b) 10 per cent on gains over Php100,000.

Tax on Sale and other Disposition of Shares through the Initial Public Offering

The sale, barter, exchange or other disposition through an IPO or shares of stock in closely held corporation is subject to an IPO tax at the rate of:

4% .... up to 25%
2% .... over 25% but not over 33.5%
1% .... over 33.5%

based on the gross selling price or gross value in money of the shares of stock sold, bartered, exchanged or otherwise disposed in accordance with the proportion of the shares of stock sold, bartered, exchanged or otherwise disposed to the total outstanding shares of stock after the listing in the Philippine Stock Exchange.

Taxes on Transfer of Shares Listed and Traded Through the PSE

A sale or other disposition of shares of stock listed and traded through the facilities of the Exchange by a resident or a non-resident holder, other than a dealer in securities, is generally subject to a stock transaction tax at the rate of one-half of one per cent (½% of 1%) of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed which shall be paid by the seller or transferor. In addition, a value-added tax ("VAT") of 12 per cent is imposed on the commission earned by the Philippine Stock Exchange registered broker which is generally passed on to the client.

The BIR has issued a letter that it will impose the "5% /10% capital gains tax" for any shares traded in the Exchange if the listed company whose shares were traded does not comply with the minimum public ownership requirement.

Documentary Stamp Tax

The original issue of shares is subject to documentary stamp tax of Php1.00 for each Php200.00, or a fractional part thereof, of the par value of the shares issued. The transfer of shares is subject to a documentary stamp tax of Php0.75 for each Php200.00, or a fractional part thereof of the par value of the shares transferred. However, the sale, barter or exchange of shares of stock listed and traded through the local stock exchange shall not be subject to documentary stamp.

FOREIGN EXCHANGE REGULATIONS AND FOREIGN OWNERSHIP

Under current BSP regulations, an investment in listed Philippine securities (such as the Shares) must be registered with the BSP if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings derived from such Shares is to be sourced from the Philippine banking system. If the foreign exchange required to service capital repatriation or dividend remittance is sourced outside the Philippine banking system, registration is not required. Current BSP Circular No. 471 (Series of 2005), however, subjects foreign exchange dealers and money changers to Republic Act No. 9160 (the Anti-Money Laundering Act of 2001, as amended) and requires these nonbank sources of foreign exchange to require foreign exchange buyers to submit, among others, the original BSP registration document in connection with their application to purchase foreign exchange exceeding US$5,000 for purposes of capital repatriation and remittance of dividends.5
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The application for registration may be done directly with the BSP or through a custodian bank duly designated by the foreign investor. A custodian bank may be a commercial bank or an offshore banking unit registered with the BSP to act as such and appointed by the investor to register the investment, hold shares for the investor, and represent the investor in all necessary actions in connection with his investments in the Philippines. Applications for registration must be accompanied by: (i) purchase invoice, subscription agreement and proof of listing on the PSE (either or both); (ii) credit advice or bank certificate showing the amount of foreign currency inwardly remitted and converted into Pesos; and (iii) transfer instructions from the stockbroker or dealer, as the case may be.

Upon registration of the investment, proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. Capital repatriation of investments in listed securities is permitted upon presentation of the BSP registration document and the broker's sales invoice, at the exchange rate prevailing at the time of purchase of the foreign exchange from the banking system. Remittance of dividends is permitted upon presentation of: (1) the BSP registration document; (2) the cash dividends notice from the PSE and the Philippine Central Depository printout of cash dividend payment or computation of interest earned; (3) copy of secretary's sworn statement on the board resolution covering the dividend declaration and (4) detailed computation of the amount applied for in the format prescribed by the BSP. Pending reinvestment or repatriation, divestment proceeds, as well as dividends of registered investments, may be lodged temporarily in interest-bearing deposit accounts. Interest earned thereon, net of taxes, may also be remitted in full. Remittance of divestment proceeds or dividends of registered investments may be reinvested in the Philippines if the investments are registered with the BSP or the investor's custodian bank.

The foregoing is subject to the power of the BSP, through the Monetary Board, with the approval of the President of the Philippines, to suspend temporarily or restrict the availability of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee during an exchange crisis, when an exchange crisis is imminent, or in times of national emergency.
The registration with the BSP of all foreign investments in any Shares received in exchange for Offer Shares shall be the responsibility of the foreign investor.

Foreign Ownership

Under Republic Act No. 7906 or the Thrift Banks Act of 1995, aggregate foreign ownership in the Bank cannot exceed the maximum of 60 per cent of the issued and outstanding voting stock. An individual non-Filipino individual and non-bank entity can only acquire up to 40 per cent of the issued and outstanding voting stock of the Bank. Accordingly, the Bank cannot allow the issuance of shares or record the transfer of shares to persons other than Philippine Nationals if such issuance or transfers shall exceed the above-mentioned foreign ownership limits.

LEGAL MATTERS

Philippine legal matters in connection with the Offer have been passed upon for the Bank by Feria Tantoco Robeniol Law Offices, the Bank's counsel for the Offer. Feria Tantoco Robeniol Law Offices does not have any direct or indirect interest in the Bank.

INDEPENDENT AUDITORS

The financial statements of PBB as of December 31, 2009, 2010 and 2011 and for the years then ended were audited by Punongbayan & Araullo, Certified Public Accountants, in accordance with PSA.

Punongbayan & Araullo has acted as PBB's external auditor since 2005. Benjamin Valdes is the current audit partner for PBB and has served as such since 2011. PBB has not had any material disagreement on accounting and financial disclosure with Punongbayan & Araullo for the periods stated above or during interim periods.

The external auditor has neither shareholdings in PBB nor any right to nominate persons or to subscribe to PBB. In accordance with the Code of Ethics for Professional Accountants in the Philippines, Punongbayan & Araullo will not receive any direct or indirect interest in PBB or its securities in connection with the Offer.

The following table sets out the aggregate fees billed for each of the last two years for professional services rendered by Punongbayan & Araullo:

In Philippine pesos	**2010**	**2011**
Audit and Audit Related Fees	1,640,905	1,792,771.33
Tax Fees	----	---
All other fees	----	---

The Audit and Audited Related Fees refers to the professional services rendered by Punongbayan & Araullo for audit of the PBB's annual financial statements or services that are normally provided in connection with statutory and regulatory filings for the said fiscal years.

PHILIPPINE BUSINESS BANK
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

JOINT LEAD UNDERWRITERS AND BOOKRUNNERS

First Metro Investment Corporation
45/F GT Tower International
6813 Ayala Avenue
Makati City

SB Capital Investment Corporation
18/F Security Bank Centre,
6776 Ayala Avenue,
Makati City

ISSUE MANAGER & FINANCIAL ADVISOR

Asian Alliance Investment Corporation
22nd Floor Equitable-BDO Tower
8751 Paseo de Roxas, Makati City

LEGAL COUNSEL TO PHILIPPINE BUSINESS BANK

Feria Tantoco Robeniol Law Offices
8th Floor DPC Place, 2322 Chino Roces Avenue, Makati City

LEGAL COUNSEL TO THE JOINT LEAD UNDERWRITERS AND BOOKRUNNERS

Picazo Buyco Tan Fider &Santos
18th Floor Liberty Center
104 H.V. dela Costa St, Salcedo Village
Makati City

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Punongbayan & Araullo
19th & 20th Floor The Enterprise Center
6766 Ayala Avenue, Makati City

ATTACHMENTS AND EXHIBITS

Exhibit A

MATRIX OF LEASE AGREEMENTS

Branch	Parties	Tenure	Amount	Area
1. A. Mabini C3	Marea Ventures Corp. and PBB	5 years renewable for another 5 years June 1, 2009 to May 31, 2014	Php50,000.00/month	118 sq.m.
2. Adriatico, Malate	Evangeline T. Lim and PBB	5 years renewable Feb 3, 2012 to Feb 3, 2017	Php117,000.00/month	117 sq.m.
3. Alabang	Araro Philippines Corp. and PBB	1 year renewable Jan 1, 2012 to December 31, 2012	Php82,481.00/month Php7,380.00/month for common area dues Php750.00/month for water	123 sq.m.
4. Angeles	AJV Investment Holdings Inc. & PBB	5 years renewable by 5 years June 30, 2008 to June 30, 2013	Php67,500.00/month	150 sq. m.
5. Antipolo	Megathon Properties, Inc. and PBB	Extension of 5 years (August 15, 2012 to August 14, 2013)	Php72,000/month	108 sq.m.
6. Antipolo - Masinag	Rikland Property Leasing and PBB	5 years renewable December 20, 2011 to December 20, 2016	Php52,387.20/month until Dec 2013, with a 5% increase each year for every year after that.	122.40 sq.m.
7. Bacolod	The Philippine American Life and General Insurance Company & PBB	5 years November 1, 2009 to October 31, 2014	P52,615.80/month with a 5% increase each year for every year after that.	141.10 sq.m. and 73.47 sq.m.
8. Baguio	Atty. Ernesto LL. De Los Santos & PBB	5 years renewable for another 5 years August 25, 2009 to August 25, 2014	P71,250.00/month	150 sq.m.
9. Baliuag	Danilo S. Santos & PBB	10 years renewable for another 10 years Jan 1, 2007 to Dec 31, 1017	P45,000.00/month With escalation of 7% each year starting on the 6th year.	120 sq.m.
10. Batangas	Sps. Jose Q and Helen S. Cifra & PBB	5 years renewable Aug 1, 2012 up to Aug 1, 2017	Php60,000.00/month	100 sq.m.
11. Binondo Corp. Center	Philippine-Chinese Charitable Association, Inc. & PBB	6 years renewable for 5 years Oct 1, 2006 to September 30, 2012	Php70,000.00/month	161 sq.m.
12. Cabanatuan	Angel S. Pascual & PBB	5 years renewable for 10 years February 15, 2009 to January 15, 2014	Php50,000.00/month with escalation of 5% from 3rd year, 7.5% from 4th year, and 10% from 5th year to end of contract.	300 sq.m.

13. Cagayan de Oro	Domingo N. Surposa, Jr. & PBB	5 years renewable for 5 years July 1, 2009 to June 30, 2014	P45,000.00/month	109 sq.m.
14. Cainta	Rosmil Realty Development Corporation & PBB	10 years March 1, 2007 to March 1, 2017	Php31,200.00/month with escalation of 2%/year starting on the 2nd year	208 sq.m.
15. Calamba	Josie T. Lu & PBB	5 years renewable January 1, 2011 to December 31, 2015	Php60,000.00/mo with escalation of 5% beginning on 2nd year	160 sq.m. and 8 parking slots
16. Camarin - Zabarte	Luwell Realty & Development Corporation & PBB	5 years renewable June 1, 2010 to May 31, 2015	P48,150.00/month	107 sq.m.
17. Carmen Planas	Zaldra Realty Development Corporation & PBB	10 years renewable for another 10 years January 1, 2005 to December 31, 2014	P70,000.00/month with escalation of 5% starting on 3rd year	95.59 sq.m.
18. Cebu -Downtown	Lianting Development Corporation & PBB	5 years renewable for 5 years May 15, 2009 to May 14, 2014	Php50,000.00/month with escalation of 7.5% from 3rd year	200 sq.m.
19. Commonwealth	Frederick C. Ibay & PBB	5 years renewable Dec 1, 2011	Php60,000.00/month with escalation of 5% beginning on 3rd year	133.52 sq.m.
20. Congressional	Holistic Management, Inc. & PBB with conformity of the Lessor of Holistic Management, Inc. (Lessor-owner) (sublease)	5 years and 9 months non-renewable with lessor, but renewable with lessor-owner March 31, 2012 to December 31, 2017	Php70,000.00/month	151.4 sq.m.
21. Cubao	RSAG Building Management Services & Danilo A. Alcoseba, President of PBB	August 15, 2010 to August 15, 2015 renewable	Php45,000.00/month with escalation of 5% beginning on 3rd year	Unints 915 D, E and F
22. Dagupan	Wilson Dy & PBB	20 years renewable April 15, 2002 to April 15, 2022	Php50,000.00/month with escalation beginning on the 3rd year	
23. Davao - Bajada	Davao City Chamber of Commerce & Industry, Inc. & PBB	5 years renewable for 5 years December 1, 2010 to 30 November 2015	Php37,500.00/month with escalation of 5% beginning on the 3rd year	150 sq.m.
24. Davao - Sales	JM Agro Industrial Trading Corporation & PBB	10 years June 2009 to June 2019	Php60,000.00/month with escalation of 5% every 2 years	140 sq.m.
25. Del Monte	Cheung’s Development Corporation & PBB	5 years renewable for 5 years Jan 1, 2010 to Dec 31, 2014	Php50,952.39/month with escalation of 5% beginning on the 4th and 5th years	2 units commercial space
26. Elcano	Bonifacia Capalad & PBB	10 years extendible Sept 1, 2004	Php40,000.00/month with escalation of 5% every year beginning on 3rd year	110 sq.m.

27. Gapan	Veronica, Albino, Digna, Gregorio and Elizabeth all surnamed Del Fonso & PBB	15 years Nov 1, 2008 to Nov 1, 2023	Php27,300.00/month with escalation of 5% on 5th year, 6.5% on 6th to 10th year and 8% on 11th to 15th year	210 sq.m.
28. Gen. Santos	Firenzo Property Development, Inc./GSC Suncity Suites & PBB	5 years renewable September 16, 2010 to September 16, 2015	Php64,200.00/month years 1 & 2, Php70,620.00 years 3 & 4, and Php77,682.00 year 5	150 sq.m.
29. Greenhills	LGI Group Corporation & PBB	5 years June 1, 2012 to May 31, 2017	Php96,900.00/month with no escalation	102 sq.m. with 2 sidewalk parking spaces
30. Iloilo	Manuel V. Uy & PBB	5 years renewable for 5 years January 16, 2010 to January 15, 2015	Php28,000.00/monthly with yearly escalation of 5%	1 door
31. Karuhatan- Malinta	Hermogenes P. Santiago & PBB	5 years renewable for 5 years	Php45,000.00/monthly with escalation of 5% yearly beginning on 3rd year	126 sq.m.
32. Kaybiga Caloocan	Guilmar Marble Corporation & PBB	5 years renewable for 5 years Oct 21, 2010 to Oct 20, 2015	Php33,950.00/monthly with escalation of 7% beginning on 2nd year	97 sq.m.
33. Laoag	Laoag Allied Realty and Development & PBB	5 years renewable Oct 1, 2011 to Sept 30, 2016	Php70,000.00/month with escalation of 5% beginning on 3rd year	154 sq.m.
34. Madrigal Bus. Center	Solid Gold Realty Corporation & PBB	5 years renewable Aug 26, 2011 to Aug 25, 2016	Php57,750.00/monthly with escalation of 5% beginning on 3rd year	105 sq.m.
35. Lapu-Lapu City	Antonio Amistad & PBB	5 years renewable for 5 years Feb 15, 2011 to Feb 15, 2016	Php56,250.00/monthly with escalation of 5% beginning on 3rd year	125 sq.m.
36. Las Pinas	Omni Investment Bldg. & PBB	5 years renewable for another 5 years Feb 27, 2008 to Feb 26, 2013	Php40,348.00/monthly with 10% escalation beginning on 4th year	77 sq.m.
37. Lipa City	Reynato D. Goce & PBB	5 years August 15, 2012 to August 15, 2017	Php66,110.00/month with escalation of 5% beginning on 3rd year	120.2 sq.m.
38. Malabon	J2NS Property Development, Inc. & PBB	5 years renewable by 5 years Aug 1, 2008 to Aug 1, 2013	Php49,912.50/month with escalation of 10% beginning on 2nd year	150 sq.m.
39. Malabon – Rizal Ave	Flaviano G. Felizardo, III	15 years renewable 2011 to 2026	Php40,000.00/monthly no escalation	238.05 sq.m.
40. Malolos	Carmencita de Castro	5 years April 15, 2009 to April 14, 2014	Php40,000.00/monthly with 10% escalation beginning on 3rd year	120 sq.m.

41. Mandaue	Lester To Chip and Lesley To Chip & PBB	5 years renewable by 5 years April 1, 2009 to March 31, 2014	Php50,000.00/monthly with escalation of 5% beginning on 3rd year Php4,000.00 common area fee/monthly	100 sq.m.
42. Mandaluyong	Antonio H. Yap & PBB	Extension of 1 year From December 2010 to December 31, 2011	Php85,743.55/monthly Php4,583.25 Condominium Dues/monthly	
43. Marikina	Heirs of Amelia M. Diguangco & PBB	5 years renewable for 5 years Oct 1, 2011 to Sept 30, 2016	Php65,000.00/monthly with escalation of 5% annually beginning on 3rd year	186 sq.m.
44. Meycauayan	International Supermarket, Inc. & PBB	10 years renewable thereafter month to month Jan 1, 2001 to Jan 1, 2011	Php40,000.00/monthly with escalation of 5% beginning on 3rd year and 10% beginning on 6th year	120 sq.m. and 6 parking slots
45. Naga	Peterson Resources and Holding Inc. & PBB	5 years renewable March 1, 2010 to February 28, 2015	Php36,000.00/monthly with escalation of 5% every year beginning on 3rd year	80 sq.m.
46. Navotas	Megarite Development Corporation & PBB	5 years renewable Jan 1, 2010 to Dec 31, 2014	Php32,400.00/monthly with escalation of 5% beginning on 4th year	180 sq.m.
47. Novaliches	Luwell Realty & Development Corporation & PBB	5 years extendible Oct 1, 2009	P65,000.00/monthly with escalation of 5% beginning on 2nd year	180 sq.m.
48. Olongapo	Maria Melinda Tan Chua & PBB	5 years renewable for 5 years May 2011 to May 2016	Php70,000.00/monthly with escalation of 5 years beginning on 3rd year	122 sq.m.
49. Ortigas Business Center	Westpoint Industrial Sales Co., Inc. & PBB *Annexed to Lease Contract are General Terms and Conditions of Westpoint consisting of 6 pages	5 years June 15, 2010 or 1st day of operations of Lessee, whichever is earlier, to June 14, 2015	Php500/sq.m./mo. (P57,500.00) with escalation of 5% beginning on 2nd year	115 sq.m.
50. Padre Algue	Keppeland Realty Corporation & PBB	5 years renewable for 5 years Nov 17, 2009 to Nov 16, 2014	P68,400.00/monthly with escalation of 5% beginning on 2nd year	152 sq.m.
51. Pasay	Mayson Realty Corporation & PBB	Renewal 5 years March 14, 2013 to March 14, 2018	P45,796.00/monthly with escalation of 5% beginning on 2nd year	
52. Pasig	Dhondup Holdings, Inc. & PBB	5 years renewable April 15, 2012 to April 15, 2017	P50,827.00/monthly with escalation of 5% beginning on 3rd year	72.71 sq.m.
53. Samson Road	Oscar F. Tirona married to Ma. Christina Tirona & PBB	5 years renewable for 5 years Jul 24, 2009 to Jul 23, 2014	P38,000.00/monthly with escalation of 10% beginning on 3rd year and every 2 years thereafter	93.72 sq.m. and 81.40 sq.m. Total: 175.12 sq.m.

54. San Fernando, La Union	Virginia Rondaris Mendoza & PBB	5 years renewable for 5 years August 15, 2009 to Aug 15, 2014	P50,000.00/monthly with escalation of 5% beginning on 2nd year, and negotiation of escalation at the end of the 4th year	228.5 sq.m.
55. San Fernando Pampanga	JTG Sears Realty Corporation & PBB	5 years renewable April 1, 2012 to April 31, 2017	P24,000.00/monthly	81 sq.m.
56. Sta. Maria	Angelica Halili Cruz & PBB	5 years renewable for 5 years Oct 1, 2007 to Sept 30, 2012	P31,944.00/monthly with escalation of 5% beginning on 3rd year	328 sq.m.
57. Sta. Rosa, Laguna	Philippine Seven Corporation & PBB Sublease Contract; 1 page terms and conditions attached	3 years: Mar 1, 2010 to Feb 28, 2013 and 2 years: March 1, 2013 to Feb 28, 2015	P64,200.00/monthly with escalation of 7.5% beginning on 2nd year	186 sq.m.
58. Sucan Paranaque	JAKA Investments Corporation & PBB	5 years renewable Feb 15, 2012 to Feb 14, 2017	P76,831.50/monthly with escalation of 7.5% beginning on 3rd year	133.62 sq.m.
59. Tarlac	Sps. Co Ting Chu & PBB	5 years renewable for 5 years July 16, 2009 to June 30, 2014	P55,000.00/monthly with escalation of 5% beginning on 2nd year	152 sq.m.
60. Urdaneta	Gold and Chimes Realty Corporation & PBB	10 years renewable Feb 1, 2012 to Feb 1, 2022	P64,000.00/monthly with escalation of 5% every 2 years	160 sq.m.
61. Valenzuela	PSL Prime Realty Corporation & PBB	5 years renewable for 5 years Aug 1, 2008 to Aug 1, 2013	P70,000.00/monthly with escalation of 7.5% annually beginning on the 3rd year	Units 4, 5 and 6
62. West Avenue	Fiorino Development Corporation & PBB	5 years renewable June 23, 2012	P52,831.25/monthly with escalation of 5% beginning on 3rd year	79 sq.m.
63. Banawe	Solmac Marketing, Inc. & PBB	5 years renewable May 1, 2009 to April 20, 2014	P91,052.50/monthly with escalation of 10% on 3rd year and 7.5% on 4th year onwards	263.81 sq.m.
64. Edsa Caloocan	Solmac Marketing, Inc. & PBB	10 years April 1, 2007 to March 31, 2017	P42,100.00/monthly with escalation of 7% on the 3rd, 5th, 7th and 9th years of the contract	421 sq.m.
65. Makati	Amy Leasing Company & PBB	15 years Jan 1, 2009 to Jan 1, 2024	P100,000.00/monthly with escalation of 5% beginning on 2nd year	480 sq.m.

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Punongbayan & Araullo

Report of Independent Auditors

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The Board of Directors
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, 2010 and 2009, and the statements of income, statements of comprehensive income, statements of changes in capital funds and statements of cash flows for 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 (FRSPB), 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, 2010 and 2009, and of its financial performance and its cash flows for the years then ended in accordance with FRSPB, 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, 2010 required by the Bureau of Internal Revenue on taxes, duties and license fees disclosed in Note 24 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 FRSPB. 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: Francis B. Albalate
Partner

CPA Reg. No. 0088499
TIN 120-319-015
PTR No. 2641855, January 3, 2011, Makati City
Partner's SEC Accreditation No. 0104-AR-2 (until Aug. 10, 2012)
BIR AN 08-002511-5-2008 (until Nov. 24, 2011)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)
Firm's SEC Accreditation No. 0002-FR-2 (until Feb. 1, 2012)

August 15, 2011

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2010	2009
RESOURCES			
CASH AND OTHER CASH ITEMS		**P 243,967,572**	P 192,825,023
DUE FROM BANGKO SENTRAL NG PILIPINAS		**383,659,746**	207,555,347
DUE FROM OTHER BANKS	6	**385,008,004**	202,992,329
AVAILABLE-FOR-SALE SECURITIES	7	**6,623,022,640**	3,245,688,549
LOANS AND OTHER RECEIVABLES - Net	8	**13,369,671,794**	11,820,417,405
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	9	**320,370,895**	313,937,661
INVESTMENT PROPERTIES - Net	10	**282,528,711**	306,175,637
OTHER RESOURCES - Net	11	**506,994,058**	430,036,119
TOTAL RESOURCES		**P 22,115,223,420**	P 16,719,628,070
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	12		
Demand		**P 403,363,157**	P 214,592,251
Savings		**8,870,638,774**	7,828,931,644
Time		**8,313,404,494**	4,639,238,579
Total Deposit Liabilities		**17,587,406,425**	12,682,762,474
BILLS PAYABLE	13	**1,213,002,192**	1,214,713,836
ACCRUED EXPENSES AND OTHER LIABILITIES	14	**850,971,692**	1,107,655,350
Total Liabilities		**19,651,380,309**	15,005,131,660
CAPITAL FUNDS	15	**2,463,843,111**	1,714,496,410
TOTAL LIABILITIES AND CAPITAL FUNDS		**P 22,115,223,420**	P 16,719,628,070

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2010	2009
INTEREST INCOME			
Loans and other receivables	8	P 930,705,018	P 702,078,331
Investment securities	7	382,954,936	261,357,935
Interbank loans receivable		30,144,778	32,428,851
Due from Bangko Sentral ng Pilipinas and other banks	6	15,037,573	7,885,436
		1,358,842,305	1,003,750,553
INTEREST EXPENSE			
Deposit liabilities	12	400,269,297	313,475,699
Bills payable and other liabilities	13	48,625,871	20,874,176
		448,895,168	334,349,875
NET INTEREST INCOME		909,947,137	669,400,678
IMPAIRMENT LOSSES	8	199,320,155	65,470,832
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		710,626,982	603,929,846
OTHER INCOME			
Trading gains - net	7	608,212,620	55,074,538
Service charges, fees and commissions		113,694,316	88,081,027
Miscellaneous	16	58,810,180	50,931,978
		780,717,116	194,087,543
OTHER EXPENSES			
Employee benefits	17	211,786,006	164,925,490
Taxes and licenses	24	170,294,814	94,042,192
Occupancy	20	102,664,591	80,604,007
Management and other professional fees		87,208,614	36,347,033
Depreciation and amortization	9, 10, 11	49,076,217	38,614,607
Transportation and travel		44,958,621	31,535,103
Insurance		40,960,409	31,561,309
Representation and entertainment		18,478,070	10,852,685
Miscellaneous	16	79,895,462	45,316,488
		805,322,804	533,798,914
PROFIT BEFORE TAX		686,021,294	264,218,475
TAX EXPENSE	19	2,744,217	46,432,630
NET PROFIT		P 683,277,077	P 217,785,845

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Amounts in Philippine Pesos)

	Note		2010		2009
NET PROFIT FOR THE YEAR		**P**	**683,277,077**	P	217,785,845
OTHER COMPREHENSIVE INCOME					
Fair value gains on available-for-sale securities - net	7		**66,069,624**		14,709,351
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P**	**749,346,701**	P	232,495,196

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	Capital Stock		Surplus		Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Total Capital Funds
		Preferred Stock	Common Stock	Appropriated	Unappropriated		
Balance as of January 1, 2010	15	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
Fair value gains during the year - net	7	-	-	-	-	45,184,502	45,184,502
Recycled to profit or loss	7	-	-	-	-	20,885,122	20,885,122
Reversal of appropriation	15	-		(120,000,000)	120,000,000	-	-
Net profit for the year		-	-	-	683,277,077	-	683,277,077
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**
Balance as of January 1, 2009	15	P 120,000,000	P 420,000,000	P 128,100,000	P 709,703,313	(P 20,802,099)	P 1,357,001,214
Additional subscription during the year	15	125,000,000	-	-	-	-	125,000,000
Fair value gains during the year - net	7	-	-	-	-	5,651,858	5,651,858
Recycled to profit or loss	7	-	-	-	-	9,057,493	9,057,493
Reversal of appropriation	15	-	-	(8,100,000)	8,100,000	-	-
Net profit for the year		-	-	-	217,785,845	-	217,785,845
Balance as of December 31, 2009		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

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 686,021,294	P 264,218,475
Adjustments for:			
Impairment losses	8	199,320,155	65,470,832
Depreciation and amortization	9, 10, 11	49,076,217	38,614,607
Loss (gain) on sale of investment properties - net	16	11,838,992	(34,272,588)
Gain on foreclosure of investment properties - net	16	(9,096,006)	(5,222,125)
Operating profit before changes in operating resources and liabilities		937,160,652	328,809,201
Increase in loans and other receivables		(1,180,853,655)	(4,135,423,746)
Decrease (increase) in other resources		39,486,925	(54,137,830)
Increase in deposit liabilities		4,904,643,951	2,300,055,629
Increase (decrease) in accrued expenses and other liabilities		(288,486,569)	251,761,671
Cash generated from (used in) operations		4,411,951,304	(1,308,935,075)
Cash paid for income taxes		(96,281,826)	(37,856,833)
Net Cash From (Used in) Operating Activities		4,315,669,478	(1,346,791,908)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net acquisitions of available-for-sale securities	7	(3,332,149,589)	(169,886,039)
Proceeds from sale of investment properties	10, 23	33,582,255	69,312,701
Net acquisitions of bank premises, furniture, fixtures and equipment	9, 23	(39,122,345)	(120,767,758)
Net payment for merger consideration		(15,005,533)	-
Maturities of held-to-maturity investments		-	38,048,000
Net Cash Used in Investing Activities		(3,352,695,212)	(183,293,096)
CASH FLOWS FROM FINANCING ACTIVIIES			
Net proceeds from (payments of) bills payable		(1,711,644)	807,241,191
Proceeds from subscription of capital stock	15	-	125,000,000
Net Cash From (Used in) Financing Activities		(1,711,644)	932,241,191
NET DECREASE IN CASH AND CASH EQUIVALENTS *(Balance Carried Forward)*		P 961,262,623	(P 597,843,813)

	Notes	2010	2009
NET DECREASE IN CASH AND CASH EQUIVALENTS *(Balance Brought Forward)*		**P 961,262,623**	(P 597,843,813)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**192,825,023**	188,246,006
Due from Bangko Sentral ng Pilipinas		**207,555,347**	200,558,726
Due from other banks	6	**202,992,329**	163,411,780
Interbank loans receivable	8	**617,000,000**	1,266,000,000
		1,220,372,699	1,818,216,512
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		**243,967,572**	192,825,023
Due from Bangko Sentral ng Pilipinas		**383,659,746**	207,555,347
Due from other banks	6	**385,008,004**	202,992,329
Interbank loans receivable	8	**1,169,000,000**	617,000,000
		P 2,181,635,322	P 1,220,372,699

Supplemental Information on Noncash Operating and Investing Activities

1. The fair value of the resources and liabilities of Kabalikat Rural Bank, Inc. that were absorbed by the Bank on March 3, 2010 were P24.3 million and P59.1 million, respectively (see Notes 1.2 and 23).

2. Additions to investment properties as a result of foreclosures amounted to P16.1 million and P20.2 million in 2010 and 2009, respectively (see Note 10).

3. On September 14, 2009, the Bank reclassified all financial assets previously classified and presented under Held-to-maturity Investments to Available-for-sale Securities with carrying value of P2,621.7 million (see Note 7).

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operation

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.

PBB recently completed a merger, effective March 3, 2010, with Kabalikat Rural Bank, Inc. (KRBI), with PBB as the surviving entity (see Note 1.2). As of December 31, 2010, the Bank operates within the Philippines with 55 branches located in Metro Manila and other provincial locations, of which 7 branches were opened during 2010.

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.

1.2 Merger with Kabalikat Rural Bank, Inc.

On April 22, 2008, the Bank entered into a Purchase Agreement (the Agreement) with the stockholders of KRBI where the Bank shall purchase all of KRBI's shares of stock, properties, assets and goodwill for a consideration amounting to P16.0 million. The following are the principal terms of the Agreement:

(a) A downpayment amounting to P9.0 million shall be paid immediately upon signing of the Agreement; and

(b) The balance of P7.0 million shall be put in an escrow account by the Bank in favor of KRBI stockholders, and shall be released upon approval of the transaction by the BSP, provided that all the stockholders of KRBI are ready to execute and sign the Deed of Assignment of Shares in favor of the Bank.

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 and issuance by the Securities and Exchange Commission (SEC) of the Articles of Merger under the Plan of Merger, which were also approved by the BSP. The following are the consequences of the merger:

(a) The Bank and KRBI shall become a single corporation with the Bank as the surviving entity;

(b) The Bank shall continue to possess all rights, privileges, franchises and powers of KRBI and shall continue to be subject to all duties and liabilities which are existing prior to the merger;

(c) All real and personal and tangible and intangible properties of KRBI including the latter's name, receivables and all other interests shall be deemed transferred to the Bank without further act or deed;

(d) All liabilities and obligations of KRBI shall be transferred to and become liabilities and obligations of the Bank as if the Bank has incurred such; and

(e) All subscribed shares and all deposits and rights of all the shareholders of KRBI pertaining thereto shall be conveyed to the Bank at an agreed purchase price of P16.0 million.

On October 23, 2008, the BSP approved the following in its Resolution No. 1352 dated October 17, 2008:

(a) The merger and the corresponding Plan of Merger and Articles of Merger between the Bank and KRBI, provided that the merger shall be in accordance with Section 79 of the Corporation Code of the Philippines and that the subject banks shall obtain all regulatory approvals within six months from date of receipt of BSP approval and the Bank shall comply with Section 21(c)(1) of Republic Act No. 3951 (The Philippine Deposit Insurance Corporation Charter) as amended;

(b) Granting of the following merger incentives to the Bank:

1. Conversion/upgrade of the head office and granting of thrift bank branch licenses to the four existing rural bank branch licenses of KRBI;

2. Right to establish additional three branches in the restricted areas and ten branches in the non-restricted areas within one year from date of receipt of BSP approval of the said merger; and

3. Automatic lifting of the Prompt Corrective Action status of KRBI under Monetary Board Resolution No. 738 dated June 28, 2008 upon effectivity of the merger.

On March 3, 2010, the SEC approved and issued the Certificate of Articles of Merger between the Bank and KRBI.

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, that is, March 3, 2010.

The total fair values of the resources and liabilities of KRBI that were absorbed by PBB on March 3, 2010 were:

Total resources absorbed	P	25,252,181
Total liabilities assumed		59,130,574

The fair value of the net liabilities of KRBI as of the acquisition date amounted to P33,878,393, while the total consideration paid by PBB amounted to P16,000,000. As such, the Bank recognized goodwill amounting to P49,878,393 representing excess of purchase price over the fair value of KRBI's net assets. The goodwill is included as part of Other Resources account in the 2010 statement of financial position (see Note 11).

1.3 Approval of Financial Statements

The financial statements of the Bank for the year ended December 31, 2010 (including the comparatives for the year ended December 31, 2009) were authorized for issue by the Board of Directors (BOD) on August 15, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 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 for banks (FRSPB). FRSPB are similar to Philippine Financial Reporting Standards (PFRS), except for the following reclassifications of certain financial instruments which are not allowed under PFRS, but allowed under FRSPB as permitted by the BSP for prudential regulation, and by the SEC for financial reporting purposes:

- the reclassification and non-bifurcation of the embedded derivatives in credit-linked notes (CLNs) and other similar instruments that are linked to Republic of the Philippines (ROP) bonds from the fair value through profit or loss (FVTPL) classification to loans and receivables or available-for-sale (AFS) classification, and

- the reclassification of certain financial assets previously classified under AFS category due to the tainting of held-to-maturity (HTM) portfolio back to held-to-maturity (HTM) category.

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 7) as allowed under FRSPB. As of December 31, 2010, the unamortized fair value gains related to debt securities previously reclassified from AFS category to HTM investments amounted to P2.7 million.

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

These financial statements have been prepared using the measurement bases specified by FRSPB 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 (Revised 2007), *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.

(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).

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) *Effective in 2010 that are Relevant to the Bank*

In 2010, the Bank adopted the following new amendments, revisions and interpretations to PFRS that are relevant to the Bank's financial statements and effective for the annual period beginning on or after January 1, 2010:

PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 3 (Revised 2008)	:	Business Combinations
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 17	:	Distribution of Non-cash Assets to Owners
Various Standards	:	2009 Annual Improvements to PFRS

Discussed below are relevant information about new and amended accounting standards.

(i) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective from July 1, 2009). The amendment clarifies the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. Management assessed that this amendment has no significant impact on the Bank's financial statements.

(ii) PFRS 3 (Revised 2008), *Business Combinations* (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Bank's merger with KRBI did not involve contingency payment and transaction with non-controlling interests as the Bank purchased all of KRBI's shares of stocks.

(iii) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Bank's adoption of this interpretation did not have an impact on the financial statements since it did not distribute non-cash assets to its stockholders during the year.

(iv) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2009*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009 or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Bank's financial statements but which did not have any material impact on its financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements* (effective from January 1, 2010). The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. Presently, the Bank presents resources and liabilities in the order of liquidity under PAS 1.

- PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Bank as cash flow from investing activities.

- PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.

- PAS 18 (Amendment), *Revenue* (effective from January 1, 2010). The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Presently, the Bank is the principal in all of its significant business undertakings, except for the trust function of the Bank, wherein the trust department of the Bank manages several funds on behalf of certain investors.

- PAS 36 (Amendment), *Impairment of Assets* (effective from January 1, 2010). PAS 36 clarifies that the largest unit permitted for the purpose of allocating goodwill to cash-generating units for goodwill impairment is the operating segment level defined in PFRS 8, *Operating Segments*, before aggregation. Since the Bank has neither segment operation nor segment asset and liability, goodwill impairment shall be recognized at the cash-generating units which consist of the branches acquired as a result of the merger. The Bank did not recognize goodwill impairment in 2010.

- PAS 38 (Amendment), *Intangible Assets (*effective from July 1, 2009). The amendment clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. The Bank did not acquire any intangible asset in connection with its business acquisition during the year.

- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement* (effective from January 1, 2010). The amendment clarifies whether embedded prepayment options, in which the exercise price represented a penalty for early repayment of the loan are considered closely related to the host debt contract. It also clarifies the scope of exemption which applies only to binding contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. Gains and losses on hedging instruments should be reclassified from equity to profit and loss account as a reclassification adjustment. The Bank has no similar transaction in 2010.

(b) *Effective in 2010 but not Relevant to the Bank*

The following revisions, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but are not relevant to the Bank's operations:

PAS 27 (Revised 2008)	:	Consolidated and Separate Financial Statements
PFRS 1 (Amendment)	:	Additional Exemptions for First-time Adopters
PFRS 2 (Amendment)	:	Share-based Payment Transactions
PFRS for SMEs	:	PFRS for Small and Medium-sized Entities
Philippine Interpretations		
IFRIC 9	:	Embedded Derivatives – Amendments to IFRIC 9 and PAS 39
IFRIC 18	:	Transfers of Assets from Customers

(c) *Effective Subsequent to 2010*

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Among those, management has initially determined the following, which the Bank will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19, *Employee Benefits*, surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its financial statements because the Bank does not usually make substantial advance contributions to its retirement fund.

(ii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

Management has determined that the adoption of the interpretation will not have a material effect on its financial statements as management does not anticipate to extinguish financial liabilities through equity swap in the subsequent periods.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective for annual periods beginning on or after July 1, 2011). The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Bank believes that adoption of the amendments in 2012 will not have any significant effect on its financial statements as these only affect disclosures and the Bank usually provides adequate information in its financial statements in compliance with disclosure requirements.

(iv) PAS 12 (Amendment), *Income Taxes* (effective from January 1, 2012). An entity is required to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. However, when the asset is measured using the fair value model under PAS 40, *Investment Property*, it can be difficult to assess whether recovery will be through use or through sale; accordingly, an amendment to PAS 12 was made. The amendment introduces a presumption that recovery of the carrying amount will be or normally be through sale. Consequently, Philippine Interpretation Standard Interpretation Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets,* would no longer apply to investment properties carried at fair value. The amendment also incorporates into PAS 12 the remaining guidance previously contained in Philippine Interpretation SIC 21, which is accordingly withdrawn. As of December 31, 2010, management is still evaluating the effect of this amendment to the Bank's financial statements.

(v) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):

o Phase 1 : Classification and Measurement
o Phase 2 : Impairment Methodology
o Phase 3 : Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being developed.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Bank. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published at which time the Bank expects it can comprehensively assess the impact of the revised standard.

(vi) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to PFRS* (the 2010 Improvements). Most of these amendments became effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. The 2010 Improvements amend certain provisions of PAS 1 (Revised 2008), clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Bank's preliminary assessments indicate that the 2010 Improvements will not have a material impact on its financial statements.

2.3 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 2.14).

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.

2.4 Financial Instruments

2.4.1 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS financial assets. 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) Available-for-sale Securities

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.

All available-for-sale financial assets are measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income. When the 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 to profit or loss and presented as a reclassification adjustment within other comprehensive income.

Reversal of impairment loss is 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.

(b) Held-to-maturity 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.

Should the Bank sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities under PFRS, and the Bank will be prohibited from holding investments under the HTM category for the next two years after 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 held-to-maturity investments are (1) 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; (2) occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (3) 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 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.

(c) 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 those arising from direct loans to customers, interbank loans, sales contract receivables and all receivables from customers and other banks.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. 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 (Amendments). 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.

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 and Loans and Other Receivables in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks and interbank loans receivable.

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, dividend income 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 rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.4.2 Offsetting Financial Instruments

Financial assets and liabilities are set-off and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.4.3 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.

(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, it includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. 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 or held-to-maturity 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 statement of income. If loans or held-to-maturity 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.

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 estimated 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 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 statement of income.

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 the statement of income.

(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 available-for-sale 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 capital funds and recognized in the statement of income.

Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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

If there is objective evidence of impairment for any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, the amount of impairment loss is recognized. 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.

2.4.4 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable and accrued expenses and other liabilities, which are measured at amortized cost using effective interest method.

Financial liabilities 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; 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 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.

2.5 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less subsequent 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. When assets are sold, retired or otherwise disposed of, the cost and their related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

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 lives of the improvements, 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 2.14).

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

An item of bank premises, furniture, fixtures and equipment 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 the statement of income in the year the item is derecognized.

2.6 Investment Properties

Investment properties are stated at cost. 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) the fair value of neither 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 on foreclosure of investment properties under Miscellaneous Income in the statement of income. Investment properties except land are depreciated over a period of 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 in the statement of income in the year of retirement or disposal.

2.7 Intangible Assets

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 is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.14). Goodwill is subsequently carried at cost less any accumulated impairment losses.

For purposes of impairment testing, goodwill is allocated to cash-generating units (see Note 2.14).

Acquired branch licenses (included as part of Other Resources) used in operations 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. The acquired branch license is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but would require an annual test for impairment (see Note 2.14). Branch licenses are subsequently carried at cost less any accumulated impairment losses.

2.8 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 pretax rate that reflects market assessments and the risks specific to the obligation. 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 can be 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.

2.9 Capital Funds

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

Appropriated surplus pertains to appropriations made by the Bank for self-insurance and for redemption of preferred shares.

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

Unrealized fair value gains (losses) on available-for-sale securities pertains to cumulative mark-to-market valuation of available-for-sale securities, net of amortization of fair value losses on reclassified financial assets.

2.10 Related Party 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 exercise significant influence over the other party in making financial and operating decisions. This includes: (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; and, (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.

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

2.11 Revenue and Expense Recognition

2.11.1 Interest Income and Expense

Interest income and expense are recognized in the statement of income for all instruments measured at amortized cost 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 the future cash flows for the purpose of measuring the impairment loss.

2.11.2 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.

2.11.3 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 results 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.

2.12 Leases – 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 are recognized as expense in the statement of income on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

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.

2.13 Foreign Currency Transactions

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 such 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.

2.14 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses and other properties held for sale 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 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. 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.

2.15 Employee Benefits

(a) Post-employment Benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution 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 pension plan is tax-qualified, non-contributory and administered by a trustee.

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 of high quality corporate bonds 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.

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity. 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 included in current liabilities or current assets as they are normally of a short-term nature.

(b) 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 reporting period are discounted to present value.

(c) 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.

(d) 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.

2.16 Income Taxes

Tax expense recognized in the statement of income comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in capital funds, 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.

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 to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of income. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly to capital funds are recognized in other comprehensive income or credited directly in capital funds.

2.17 Trust Operations

The Bank acts as trustee and in other fiduciary capacity that results in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not resources of the Bank.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Bank's financial statements prepared in accordance with FRSPB 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.

3.1 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) Held-to-maturity Investments

The Bank follows the guidance of PAS 39, in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. 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. However, the tainting provision will not apply if the sales or reclassifications of held-to-maturity 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. The investments would therefore be measured at fair value and not at amortized cost.

In 2008, the BSP and 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 to loans and receivables. Accordingly, despite the tainting prohibition until 2008, the Bank reclassified its investments in debt securities previously classified under FVTPL and AFS 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 7), as allowed under FRSPB.

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 7). As such, the Bank will not be allowed to classify as HTM investments its existing and new acquisitions of financial assets due to tainting until 2011.

(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, 2010 and 2009. 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 its 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 under Other Resources if the Bank expects that the properties 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 valuations performed by 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) Operating and Finance Leases

The Bank has entered into various lease agreements as a lessee. 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.

(f) 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 2.8 and relevant disclosures are presented in Note 20.

3.2 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.

Provisions for impairment losses recognized by the Bank on its loans and other receivables amounted to P199.3 million and P65.5 million in 2010 and 2009, respectively (see Note 8). No impairment loss was recognized on AFS securities in 2010 and 2009.

(b) 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, 2010 and 2009, AFS securities amounting to P6.6 billion and P3.2 billion, respectively, is the only financial asset (nil for liabilities) measured at fair value in the statement of financial position and the value is determined under Level 1.

The following table summarizes the cost and fair values of those financial resources and liabilities not presented in the statement of financial position at their fair values:

	2010	
	Cost	**Fair Value**
Financial Resources:		
Cash and other cash items	**P 243,967,572**	**P 243,967,572**
Due from BSP	**383,659,746**	**383,659,746**
Due from other banks	**385,008,004**	**385,008,004**
Loans and other receivables	**13,858,329,898**	**13,369,671,794**
Other resources	**25,683,643**	**25,683,643**
Financial Liabilities:		
Deposit liabilities	**17,587,406,425**	**17,587,406,425**
Bills payable	**1,213,002,192**	**1,213,002,192**
Accrued expenses and other liabilities	**824,811,652**	**824,811,652**

	2009	
	Cost	Fair Value
Financial Resources:		
Cash and other cash items	P 192,825,023	P 192,825,023
Due from BSP	207,555,347	207,555,347
Due from other banks	202,992,329	202,992,329
Loans and other receivables	12,078,534,248	11,820,417,405
Other resources	36,880,804	36,880,804
Financial Liabilities:		
Deposit liabilities	12,682,762,474	12,682,762,474
Bills payable	1,214,713,836	1,214,713,836
Accrued expenses and other liabilities	1,085,384,882	1,085,384,882

(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 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) 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.

(iv) Accrued expenses and other liabilities

Accrued expenses and other 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.

(c) 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 9 and 10, respectively. Based on management assessment, there is no change in 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.

(d) 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, 2010 and 2009 is disclosed in Notes 11 and 19.

(e) Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives, 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 2.14. 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 on investment properties amounted to P23.9 million and P14.9 million as of December 31, 2010 and 2009, respectively (see Note 10).

(f) Post-employment Benefits

The determination of the Bank's obligation and cost of post-employment is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17.2 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 estimated post-employment benefit obligation amounted to P7.0 million and P22.3 million as of December 31, 2010 and 2009, respectively, while the fair value of plan assets as of those dates amounted to P34.9 million and P11.9 million, respectively (see Note 17.2).

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's key financial risks include credit and market risk in the trading and banking book and operational risks. Credit risk includes 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 portfolio. Liquidity risk management includes Liquidity Contingency Planning. 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. Business Continuity Planning (BCP) and Disaster Recovery Management (DRM) is within the scope of operational risk management.

4.1 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 (RMC), which in turn supervises the Chief Risk Officer and Head of the Risk Management Sector in the development and implementation of risk policies, processes and guidelines. 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 with economic and regulatory capital requirements and best risk management practices.

4.2 Credit Risk

Credit risk pertains to the probability of non-payment by borrowers or counterparties of their obligations, either in full or partially as they fall due, the risk of loss due to the deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced potential value recovery from a credit facility in the event of default. The management of credit risks covers the identification, measurement, control and reporting of exposure to corporate and individual credits, trading counterparties, trade finance credits, credit commitments, and other risks associated with individual credit transactions and aggregating the foregoing exposures into a credit portfolio risk measurement and management process.

The quantification of standalone credit risk involves assessing the likelihood of non-repayment or settlement of a specific type of credit obligation or facility as well as the expected loss and recovery from defaulted credits taking into consideration the maturity of exposure and the exposure profile until maturity in relation to potential market conditions. A sound credit risk analysis at the individual account and portfolio basis provides the foundation for a sound credit evaluation, credit underwriting and loan granting process. Using BSP's minimum standards credit acceptance criteria approved under Circular 439, the bank employs an Internal Credit Risk Rating System (ICRRS) for the risk assessment of commercial borrowing accounts of P15.0 million and up. The Bank recently installed a Retail Credit Scoring system (LOS) to support its consumer loan origination business. The credit risk rating and scoring systems are both intended to complement the expert judgment approach and operationally integrate the Bank's credit quality assessment into the loan approval process. The risk rating system, as a matter of policy also aims to provide a useful guide to the Bank's credit provisioning, pricing and portfolio management process.

In managing the credit portfolio risk, the Bank has approved large exposures and credit risk concentration policy pursuant to Circular 414 of the BSP which requires the setting of large exposures and credit limits of no more than a given percent of total risk capital, stockholders equity or aggregate loan portfolio. Included in this policy are limit settings by industry and related counterparties or borrowers. Future credit portfolio policy initiatives include limits by maturity, facility type, geographic location, type of collaterals and credit risk grade.

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity to risk arising from adverse changes in economic and business environment or specific conditions of the borrower. Stress tests involving the impact analysis of changes in market volume and price parameters affecting the loan repayment conditions, collateral recovery values, unexpected loss events and other extraordinary circumstances with potential adverse effect on the Bank's exposure is also an integral component of the credit risk management process.

The following table shows the Bank's maximum exposure to credit risk on loans and other receivables as of December 31, 2010 and 2009 (amounts in thousands).

	2010	2009
Individually impaired		
Wholesale and retail trade	**P 588,264**	P 620,032
Manufacturing	**374,057**	280,344
Real estate, renting and construction	**414,424**	158,438
Consumption	**82,264**	96,548
Others	**696,031**	314,357
Gross amount	**2,155,040**	1,469,719
Allowance for impairment	**(440,645)**	(229,655)
Carrying amount	**1,714,395**	1,240,064
Collectively impaired		
Wholesale and retail trade	**59,907**	15,003
Consumption	**36,183**	85,818
Others	**156,611**	69,512
Gross amount	**252,701**	170,333
Allowance for impairment	**(48,013)**	(28,462)
Carrying amount	**204,688**	141,871
Past due but not impaired		
Carrying amount	**49,410**	4,291
Neither past due nor impaired		
Carrying amount	**11,401,179**	10,434,191
Total carrying amount	**P 13,369,672**	P 11,820,417

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 P6,623.0 million and P385.0 million, respectively, in 2010 and P3,245.7 million and P203.0 million, respectively, in 2009. 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.

4.3 Market Risk

The Bank's market risk exposure arise 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.

4.3.1 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 from 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 peso) and peso-denominated balances as of December 31, 2010 and 2009 follow (amounts in thousands):

	2010		
	Foreign Currency	**Peso**	**Total**
Financial Resources:			
Cash and other cash items	P -	P 243,968	P 243,968
Due from BSP	-	383,660	383,660
Due from other banks	63,514	321,494	385,008
Available-for-sale securities	1,918,845	4,704,178	6,623,023
Loans and other receivables - net	114,760	13,254,912	13,369,672
Other resources	16,153	9,530	25,683
Financial Liabilities:			
Deposit liabilities	2,175,939	15,411,468	17,587,407
Bills payable	-	1,213,002	1,213,002
Accrued expenses and other liabilities	64,046	760,766	824,812

	2009		
	Foreign Currency	Peso	Total
Financial Resources:			
Cash and other cash items	P -	P 192,825	P 192,825
Due from BSP	-	207,555	207,555
Due from other banks	83,342	119,650	202,992
Available-for-sale securities	1,361,228	1,884,461	3,245,689
Loans and other receivables - net	526,612	11,293,805	11,820,417
Other resources	27,350	9,530	36,880
Financial Liabilities:			
Deposit liabilities	1,820,391	10,862,372	12,682,763
Bills payable	46,444	1,168,270	1,214,714
Accrued expenses and other liabilities	45,790	1,039,595	1,085,385

4.3.2 Interest Rate Risk

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

In measuring interest rate exposure from an earnings impact perspective, the Bank calculates the Earnings at Risk (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 as interest rates rise, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall.

To mitigate this risk, the Bank follows a prudent policy on managing assets and liabilities so as to ensure that exposure to interest rate risk is kept within acceptable levels.

The analyses of the groupings of resources, liabilities, capital funds and off-statement of position items as of December 31, 2010 and 2009 based on the expected interest realization or recognition are presented below (amounts in thousands):

	2010					
	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 243,968	P 243,968
Due from BSP	383,660	-	-	-	-	383,660
Due from other banks	385,008	-	-	-	-	385,008
AFS securities	-	9,987	265,028	6,348,008	-	6,623,023
Loans and other receivables - net	5,365,846	2,757,000	2,284,484	2,962,342	-	13,369,672
Other resources	-	-	-	-	25,683	25,683
Total Resources	6,134,514	2,766,987	2,549,512	9,310,350	269,651	21,031,014
Liabilities and Capital Funds						
Deposit liabilities	6,202,186	2,877,747	1,950,182	930,274	5,627,018	17,587,407
Bills payable	671,448	45,014	393,647	102,893	-	1,213,002
Accrued expenses and other liabilities	-	-	-	-	824,812	824,812
Total Liabilities	6,873,634	2,922,761	2,343,829	1,033,167	6,451,830	19,625,221
Capital Funds	-	-	-	-	2,463,843	2,463,843
Total Liabilities and Capital Funds	6,873,634	2,922,761	2,343,829	1,033,167	8,915,673	22,089,064
On-book Gap	(739,120)	(155,774)	205,683	8,277,183	(8,646,022)	(1,058,050)
Cumulative On-book Gap	(739,120)	(894,894)	(689,211)	7,587,972	(1,058,050)	-
Contingent Resources	424,905	-	9,500	2,283,151	-	2,717,556
Contingent Liabilities	-	-	-	-	711,587	711,587
Off-book Gap	424,905	-	9,500	2,283,151	(711,587)	2,005,969
Net Periodic Gap	(314,215)	(155,774)	215,183	10,560,334	(9,357,609)	947,919
Cumulative Total Gap	**(P 314,215)**	**(P 469,989)**	**(P 254,806)**	**P10,305,528**	**P 947,919**	**P -**

	2009					
	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 192,825	P 192,825
Due from BSP	207,555	-	-	-	-	207,555
Due from other banks	202,992	-	-	-	-	202,992
AFS securities	-	16,823	20,011	3,208,855	-	3,245,689
Loans and other receivables - net	7,534,071	880,339	489,574	2,916,433	-	11,820,417
Other resources	-	-	-	-	36,880	36,880
Total Resources	7,944,618	897,162	509,585	6,125,288	229,705	15,706,358
Liabilities and Capital Funds						
Deposit liabilities	4,938,005	2,782,499	1,556,270	612,438	2,793,551	12,682,763
Bills payable	1,083,343	-	23,398	107,973	-	1,214,714
Accrued expenses and other liabilities	12,026	33,764	-	-	1,061,865	1,107,655
Total Liabilities	6,033,374	2,816,263	1,579,668	720,411	3,855,416	15,005,132
Capital Funds	-	-	-	-	1,714,496	1,714,496
Total Liabilities and Capital Funds	6,033,374	2,816,263	1,579,668	720,411	5,569,912	16,719,628
On-book Gap	1,911,244	(1,919,101)	(1,070,083)	5,404,877	(5,340,207)	(1,013,270)
Cumulative On-book Gap	1,911,244	(7,857)	(1,077,940)	4,326,937	(1,013,270)	-
Contingent Resources	229,676	-	5,135	1,234,124	-	1,468,935
Contingent Liabilities	-	-	-	-	540,818	540,818
Off-book Gap	229,676	-	5,135	1,234,124	(540,818)	928,117
Net Periodic Gap	2,140,920	(1,919,101)	(1,064,948)	6,639,001	(5,881,025)	85,153
Cumulative Total Gap	P 2,140,920	P 221,819	(P 843,129)	P 5,795,872	P 85,153	P -

4.3.3 Price Risk

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs Value-at-Risk (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 95% confidence level for this measurement (i.e. there is a five percentage probability that losses could exceed the VaR).

In calculating the severity of the market risk exposure for fixed income securities, the Bank takes into accounts 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. In the portfolio VaR calculation for fixed income instruments, this methodology also requires the calculation of the degree of correlation of interest rates across the term structure which can affect the overall level of market risk exposure given the extent of diversification of the securities portfolio in terms of tenor and instrument composition. 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.

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 good market risk control and compliance practice, the Bank sets limits on the VaR and trading position on a per instrument and portfolio basis given factor sensitivity considerations, stop loss limits and VaR to target profit ratios. VaR limits are normally set at two to three projected earnings from the trading portfolio.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank conducts 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 trading portfolios at December 31, 2010.

Term	Yield to Maturity	Rate Volatility	VaR	VaR (10-day Defeasance)
Over 3 months	1.20%	12.33%	P 119,033,675	P 376,417,531
6 months	1.50%	7.08%	-	-
1 year	2.45%	4.46%	9,779	30,924
2 years	3.43%	2.88%	202,612	640,715
3 years	4.10%	1.50%	57,518	181,888
4 years	4.37%	1.33%	-	-
5 years	4.78%	1.82%	-	-
7 years	4.90%	2.18%	15,422,574	48,770,462
10 years	5.89%	1.34%	8,164,014	25,816,878
20 years	8.10%	1.66%	20,040,440	63,373,435

Stress test on the December 31, 2010 portfolio shows the potential impact on profit and capital funds of parallel increase in interest rates of available-for-sale securities as follows:

Currency	Current Market Value	Sensitivities +100 bps	+300 bps	+500 bps
Peso	P4,704,177,509	(P 476,486,742)	(P1,429,460,225)	(P 2,382,433,708)
US Dollar	1,918,845,131	(160,632,837)	(481,898,510)	(803,164,183)
Total	P6,623,022,640	(P 637,119,579)	(P1,911,358,735)	(P 3,185,597,891)

The table below shows the VaR position of the Bank's trading portfolios at December 31, 2009.

Term	Yield to Maturity	Rate Volatility	VaR	VaR (10-day Defeasance)
Over 3 months	8.19%	8.67%	P 186,352	P 589,296
6 months	6.55%	7.20%	99,968	316,128
1 year	6.57%	13.50%	1,241,094	3,924,683
2 years	6.19%	6.70%	148,857	470,727
3 years	6.65%	5.10%	169,687	536,598
4 years	6.00%	4.70%	361,942	1,144,561
5 years	6.68%	3.60%	752	2,379
7 years	6.95%	2.80%	17,269,398	54,610,632
10 years	7.75%	3.60%	18,780,435	59,388,951
20 years	8.78%	5.50%	42,982,761	135,923,424

4.3.4 Liquidity Risk

Liquidity risk is the probability of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the regular assessment of liquidity gaps. A maturity ladder relating the inflows to outflows of funds at selected maturity dates is constructed to measure liquidity exposure. The ladder shows the Bank statement of financial position cut into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amounts 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 Maximum Cumulative Outflow (MCO) limit is established per currency based on the recommendation of management which is reviewed including the underlying assumptions therein by the Asset and Liability Committee and the RMC prior to the confirmation by the BOD.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-statement of financial position items as of December 31, 2010 and 2009 is presented below (amounts in thousands).

	2010				
	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 243,968	P -	P -	P -	P 243,968
Due from BSP	383,660	-	-	-	383,660
Due from other banks	385,008	-	-	-	385,008
AFS securities	-	9,987	265,028	6,348,008	6,623,023
Loans and other receivables	5,365,846	2,757,000	2,284,484	2,962,342	13,369,672
Bank premises, furniture, fixtures and equipment	-	-	-	320,371	320,371
Investment properties	-	-	-	282,528	282,528
Other resources	68,990	-	174,369	263,635	506,994
Total Resources	6,447,472	2,766,987	2,723,881	10,176,884	22,115,224
Liabilities and Capital Funds:					
Deposit liabilities	11,829,204	2,877,747	1,950,182	930,274	17,587,407
Bills payable	671,448	45,014	393,647	102,893	1,213,002
Accrued expenses and other liabilities	672,441	83,653	92,547	2,331	850,972
Total Liabilities	13,173,093	3,006,414	2,436,376	1,035,498	19,651,381
Capital Funds	-	-	-	2,463,843	2,463,843
Total Liabilities and Capital Funds	13,173,093	3,006,414	2,436,376	3,499,341	22,115,224
On-book Gap	(6,725,621)	(239,427)	287,505	6,677,543	-
Cumulative On-book Gap	(6,725,621)	(6,965,048)	(6,677,543)	-	-
Contingent Resources	424,905	-	9,500	2,283,151	2,717,556
Contingent Liabilities	175,254	264,314	271,218	801	711,587
Off-book Gap	249,651	(264,314)	(261,718)	2,282,350	2,005,969
Net Periodic Gap	(6,475,970)	(503,741)	25,787	8,959,893	2,005,969
Cumulative Total Gap	**(P 6,475,970)**	**(P 6,979,711)**	**(P 6,953,924)**	**P 2,005,969**	**P -**

	2009				
	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 192,825	P -	P -	P -	P 192,825
Due from BSP	207,555	-	-	-	207,555
Due from other banks	202,992	-	-	-	202,992
Investment securities	-	16,823	20,011	3,208,855	3,245,689
Loans and other receivables	3,080,226	2,425,692	2,964,743	3,349,756	11,820,417
Bank premises, furniture, fixtures and equipment	-	-	-	313,938	313,938
Investment properties	-	-	-	306,176	306,176
Other resources	198,810	-	17,654	213,572	430,036
Total Resources	3,882,408	2,442,515	3,002,408	7,392,297	16,719,628
Liabilities and Capital Funds:					
Deposit liabilities	2,959,780	2,646,274	6,464,270	612,439	12,682,763
Bills payable	1,083,343	-	23,398	107,973	1,214,714
Accrued expenses and other liabilities	1,050,578	33,764	20,298	3,015	1,107,655
Total Liabilities	5,093,701	2,680,038	6,507,966	723,427	15,005,132
Capital Funds	-	-	-	1,714,496	1,714,496
Total Liabilities and Capital Funds	5,093,701	2,680,038	6,507,966	2,437,923	16,719,628
On-book Gap	(1,211,293)	(237,523)	(3,505,558)	4,954,374	-
Cumulative On-book Gap	(1,211,293)	(1,448,816)	(4,954,374)	-	-
Contingent Resources	229,676	-	5,135	1,234,124	1,468,935
Contingent Liabilities	84,333	416,615	27,870	12,000	540,818
Off-book Gap	145,343	(416,615)	(22,735)	1,222,124	928,117
Net Periodic Gap	(1,065,950)	(654,138)	(3,528,293)	2,935,445	1,941,386
Cumulative Total Gap	(P 1,065,950)	(P 1,720,088)	(P 5,248,381)	(P 2,312,936)	(P 371,550)

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 which are mostly in the form of Current Account Savings Account (CASA) deposits. 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 AFS securities. Moreover, the Board 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.

5. CAPITAL MANAGEMENT AND REGULATORY CAPITAL

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

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio is total capital funds 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, 2010 and 2009, the Bank has satisfactorily complied with the capital-to-risk assets ratio (see Note 22).

Under an existing BSP circular, thrift and savings banks are required to comply with the minimum capital requirement of P64.0 million. At the end of each reporting period, the Bank has complied with the foregoing capitalization requirement.

6. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2010	2009
Local banks	**P 331,182,097**	P 153,486,418
Foreign banks	**53,825,907**	49,505,911
	P 385,008,004	P 202,992,329

Interest rates on these deposits range from 0.25% to 2.5% and 0.50% to 4.88% per annum in 2010 and 2009, respectively.

The breakdown of due from other banks by currency is as follows:

	2010	2009
US dollar	**P 63,513,654**	P 83,341,987
Peso	**321,494,350**	119,650,342
	P 385,008,004	P 202,992,329

7. AVAILABLE-FOR-SALE SECURITIES

This account is composed of government securities with fair value of P6,623.0 million, and P3,245.7 million as of December 31, 2010 and 2009, respectively.

As to currency, the account is composed of the following:

	2010	2009
Peso	**P4,704,177,509**	P 1,884,460,544
Foreign currency	**1,918,845,131**	1,361,228,005
	P6,623,022,640	P 3,245,688,549

Changes in the AFS securities are summarized below.

	2010	2009
Balance at beginning of year	**P3,245,688,549**	P 448,431,714
Additions	**21,829,528,975**	6,952,755,092
Fair value gains	**45,184,502**	5,651,858
Reclassification from HTM investments	**-**	2,621,718,938
Disposals	**(18,497,379,386)**	(6,782,869,053)
	P6,623,022,640	P 3,245,688,549

The reconciliation of unrealized fair value gains (losses) on AFS securities reported in capital funds is shown below.

	2010	2009
Balance at beginning of year	**(P 6,092,748)**	(P 20,802,099)
Changes during the year:		
Fair value gains during the year	**45,184,502**	5,651,858
Realized fair value losses (gains) on AFS securities disposed during the year	**18,166,084**	(18,565,557)
Amortization of fair value losses on reclassified AFS securities	**2,719,038**	27,623,050
	66,069,624	14,709,351
Balance at end of year	**(P 59,976,876)**	(P 6,092,748)

Available-for-sale securities earn interest of 6.50% to 11.38% per annum in 2010 and 6.38% to 13.88% per annum in 2009. Fair value losses and gains recycled to profit or loss from equity resulting from the sale of available-for-sale securities amounted to a loss of P18.2 million and a gain of P18.6 million in 2010 and 2009, respectively, and are included in Trading Gains - net in the statements of income.

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 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 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 date of reclassification on September 11, 2008.

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. As of December 31, 2010, the fair value of these reclassified securities amounted to P289.8 million, including the unamortized fair value gains amounting to P2.7 million related to debt securities previously reclassified from AFS category to HTM investments. This amount will be amortized over the remaining life of the reclassified investments or recognized to profit or loss upon sale, whichever comes earlier. Due to the Bank's change in intention and inability to hold the HTM investments until their maturity, the Bank will not be allowed to classify any of its financial assets at HTM investments for at least two full years.

In compliance with current banking regulations relative to the Bank's trust functions, certain available-for-sale securities of the Bank, with face value of P26.0 million and P34.1 million as of December 31, 2010 and 2009, respectively, are deposited with the BSP (see Note 21).

The fair values of available-for-sale securities have been determined directly by reference to published prices in an active market.

8. LOANS AND OTHER RECEIVABLES

Loans and other receivables consist of the following:

	2010	2009
Loans and discounts:		
Loans and discounts	**P 8,638,224,474**	P 7,287,816,343
Bills purchased	**646,975,434**	864,312,200
Customers' liabilities on acceptances, letters of credit and trust receipts	**1,928,016,653**	1,391,003,406
	11,213,216,561	9,543,131,949
Unearned discount	**(26,030,625)**	(20,371,193)
Sub-total *(balance carried forward)*	**P 11,187,185,936**	P 9,522,760,756

	2010	2009
Sub-total *(balance carried forward)*	**P 11,187,185,936**	P 9,522,760,756
Other receivables:		
Unquoted debt securities	**1,341,000,000**	1,769,458,484
Interbank loans receivables	**1,169,000,000**	617,000,000
Accrued interest receivable	**95,846,195**	103,654,303
Sales contract receivable	**49,796,731**	52,226,336
Deficiency claims receivable	**11,550,508**	6,716,570
Accounts receivable	**3,950,528**	6,717,799
	2,671,143,962	2,555,773,492
	13,858,329,898	12,078,534,248
Allowance for impairment losses	**(488,658,104)**	(258,116,843)
	P13,369,671,794	P11,820,417,405

As of December 31, 2010 and 2009, nonperforming loans amounted to P315.7 million and P498.1 million, respectively, while restructured loans amounted to P8.1 million as of December 31, 2009 (nil in 2010).

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

	2010	2009
Within one year	**P 8,250,874**	P 7,995,731
Beyond one year	**2,962,343**	1,547,401
	P 11,213,217	P 9,543,132

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

	2010	2009
Wholesale and retail trade	**P 4,381,262**	P 3,444,676
Manufacturing (various industries)	**2,218,422**	2,596,509
Real estate, renting and business activities	**1,296,094**	936,609
Agriculture	**265,845**	233,740
Others	**3,051,594**	2,331,598
	P 11,213,217	P 9,543,132

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

	2010	2009
Secured:		
Real estate mortgage	**P 3,701,913**	P 2,697,396
Chattel mortgage	**998,344**	658,398
Deposit hold-out	**377,286**	129,324
Others	**383,301**	559,198
Unsecured	**5,752,373**	5,498,816
	P 11,213,217	P 9,543,132

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

	Note	2010	2009
Balance at beginning of year		**P 258,116,843**	P 192,646,011
Provision for impairment losses		**199,320,155**	65,470,832
Transfer from merged entity		**37,183,452**	-
Reclassification to investment properties	10	**(5,962,346)**	-
		P 488,658,104	P 258,116,843

Of the total loans and discounts of the Bank as of December 31, 2010 and 2009, 82.53% and 76.00%, respectively, are subject to periodic interest repricing.

Annual effective interest rates of loans and discounts range from 1.4% to 26.0% in 2010 and 6.88% to 16.41% in 2009.

9. 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 2010 and 2009 are shown below.

	Land	**Building**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Leasehold Improve-ments**	**Total**
December 31, 2010						
Cost	P 77,747,556	P 96,801,339	P 172,984,840	P 55,345,464	P 123,495,003	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**	**P320,370,895**
December 31, 2009						
Cost	P 75,600,000	P 92,106,083	P 153,707,576	P 43,899,025	P 120,367,662	P 485,680,346
Accumulated depreciation and amortization	-	(21,246,117)	(88,588,340)	(21,165,644)	(40,742,584)	(171,742,685)
Net carrying amount	P 75,600,000	P 70,859,966	P 65,119,236	P 22,733,381	P 79,625,078	P 313,937,661
January 1, 2009						
Cost	P 75,600,000	P 86,587,328	P 112,887,751	P 29,242,807	P 61,052,449	P 365,370,335
Accumulated depreciation and amortization	-	(19,517,330)	(76,323,169)	(15,880,799)	(33,115,083)	(144,836,381)
Net carrying amount	P 75,600,000	P 67,069,998	P 36,564,582	P 13,362,008	P 27,937,366	P 220,533,954

A reconciliation of the carrying amounts at the beginning and end of 2010 and 2009 is shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
Balance at January 1, 2010, net of accumulated depreciation and amortization	P 75,600,000	P 70,859,966	P 65,119,236	P 22,733,381	P 79,625,078	P 313,937,661
Net additions (disposals)	(1,510,071)	4,058,832	20,992,921	12,539,128	3,041,535	39,122,345
Transfer from merged entity	3,657,627	911,026	218,803	5	85,806	4,873,267
Depreciation and amortization charges for the year	-	(2,258,321)	(17,224,019)	(7,250,385)	(10,829,653)	(37,562,378)
Balance at December 31, 2010, 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**
Balance at January 1, 2009, net of accumulated depreciation and amortization	P 75,600,000	P 67,069,998	P 36,564,582	P 13,362,008	P 27,937,366	P 220,533,954
Net additions	-	5,497,314	40,875,326	15,079,905	59,315,213	120,767,758
Depreciation and amortization charges for the year	-	(1,707,346)	(12,320,672)	(5,708,532)	(7,627,501)	(27,364,051)
Balance at December 31, 2009, net of accumulated depreciation and amortization	P 75,600,000	P 70,859,966	P 65,119,236	P 22,733,381	P 79,625,078	P 313,937,661

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, 2010, the Bank has satisfactorily complied with this requirement.

10. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation.

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2010 and 2009 are shown below.

	Land	Buildings and Improvements	Total
December 31, 2010			
Cost	P 248,926,511	P 80,886,548	P 329,813,059
Accumulated depreciation	-	(23,366,623)	(23,366,623)
Allowance for impairment	(14,913,783)	(9,003,942)	(23,917,725)
Net carrying amount	**P 234,012,728**	**P 48,515,983**	**P 282,528,711**

	Land		Buildings and Improvements		Total
December 31, 2009					
Cost	P	245,004,074	P	89,908,399	P	334,912,473
Accumulated depreciation		-	(	13,855,710)	(	13,855,710)
Allowance for impairment	(	12,083,605)	(	2,797,521)	(	14,881,126)
Net carrying amount	P	232,920,469	P	73,255,168	P	306,175,637
January 1, 2009						
Cost	P	249,987,475	P	98,228,781	P	348,216,256
Accumulated depreciation		-	(	12,946,890)	(	12,946,890)
Allowance for impairment	(	12,083,605)	(	2,797,521)	(	14,881,126)
Net carrying amount	P	237,903,870	P	82,484,370	P	320,388,240

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2010 and 2009 is shown below.

		Land		Buildings and Improvements		Total
Balance at January 1, 2010, net of accumulated depreciation and impairment	P	232,920,469	P	73,255,168	P	306,175,637
Additions		21,586,244		3,645,225		25,231,469
Disposals	(	31,843,329)	(	13,577,918)	(	45,421,247)
Reclassification of allowance from loans and other receivables and other resources	(	365,856)	(	6,206,421)	(	6,572,277)
Transfer from merged entity		11,715,200		1,807,277		13,522,477
Depreciation for the year		-	(	10,407,348)	(	10,407,348)
Balance at December 31, 2010, net of accumulated depreciation and impairment	**P**	**234,012,728**	**P**	**48,515,983**	**P**	**282,528,711**
Balance at January 1, 2009, net of accumulated depreciation and impairment	P	237,903,870	P	82,484,370	P	320,388,240
Additions		23,356,140		22,675,500		46,031,640
Disposals	(	28,339,541)	(	19,936,699)	(	48,276,240)
Reclassification		-	(	3,674,640)	(	3,674,640)
Depreciation for the year		-	(	8,293,363)	(	8,293,363)
Balance at December 31, 2009, net of accumulated depreciation and impairment	P	232,920,469	P	73,255,168	P	306,175,637

The fair value of investment properties as of December 31, 2010 and 2009 amounted to P333.3 million and P319.2 million, respectively, based on the latest appraised values of the investment properties at the end of each reporting period.

11. OTHER RESOURCES

This account consists of:

	Notes	2010	2009
Due from head office or branches		**P 150,963,246**	P 118,270,310
Deferred tax assets – net	19	**146,711,371**	80,501,425
Returned checks		**52,815,761**	25,164,284
Goodwill	1.2	**49,878,393**	-
Branch licenses		**20,000,000**	20,000,000
Deferred charges		**17,643,424**	17,643,424
Foreign currency notes and checks on hand		**16,153,207**	27,350,368
Receivable from Bureau of Internal Revenue (BIR)		**10,756,732**	16,612,015
Security deposits		**9,530,436**	9,530,436
Computer software - net		**8,127,359**	1,846,735
Stationery and supplies		**6,525,480**	3,665,810
Prepaid expenses		**5,498,763**	1,277,574
Other properties - net		**3,917,310**	12,876,460
Due from KRBI		**-**	83,038,508
Other deposit		**-**	16,000,000
Miscellaneous		**26,495,999**	14,892,124
		525,017,481	448,669,473
Allowance for impairment losses		**(18,023,423)**	(18,633,354)
		P 506,994,058	P 430,036,119

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of KRBI at the date of merger (see Note 1.2) in 2010.

Branch licenses pertain to the Bank's acquisition of the licenses of Prime Savings Bank, Inc.'s four branches for a total consideration of P20.0 million.

Deferred charges amounting to P17.6 million as of December 31, 2010 and 2009 pertain to prepaid final taxes from prior years that are fully provided with allowance since the Bank assessed that these prepaid taxes are no longer recoverable.

Receivable from BIR pertains to claims for overpayment of final taxes.

Other properties are presented net of accumulated depreciation of P2.1 million and P5.9 million in 2010 and 2009, respectively. Depreciation expense recognized in 2010 and 2009 amounted to P1.1 million and P3.0 million, respectively, presented as part of Depreciation and Amortization in the statements of income.

Due from KRBI in 2009 represents the net amount of cash equivalents and deposit liabilities transferred to the Bank in anticipation of the merger (see Note 1.2).

Other deposit in 2009 pertains to the amount paid by the Bank in favor of the stockholders of KRBI in connection with the agreed consideration for the purchase of the net assets of KRBI (see Note 1.2).

12. DEPOSIT LIABILITIES

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

	2010	2009
Within one year	**P 16,657,132,425**	P 12,070,324,874
Beyond one year	**930,274,000**	612,437,600
	P 17,587,406,425	P 12,682,762,474

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

	2010	2009
Foreign	**P 2,175,938,758**	P 1,820,390,641
Peso	**15,411,467,667**	10,862,371,833
	P 17,587,406,425	P12,682,762,474

Interest rates on deposit liabilities range from 0.25% to 4.50% per annum in 2010 and 0.50% to 4.50% per annum in 2009.

The fair values of deposit liabilities have not been disclosed as management considers the carrying amount recognized in the statements of financial position to be a reasonable approximation of their fair values.

13. BILLS PAYABLE

The maturity profile of bills payable follows:

	2010	2009
Within one year	**P1,110,109,520**	P1,106,740,961
Beyond one year	**102,892,672**	107,972,875
	P1,213,002,192	P1,214,713,836

The breakdown of bills payable as to currency follows:

	2010	2009
Peso	**P1,213,002,192**	P1,168,269,492
Foreign	**-**	46,444,344
	P1,213,002,192	P1,214,713,836

Bills payable have interest rates ranging from 4.00% to 4.75% per annum in 2010 and 1.00% to 6.00% per annum in 2009.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Note	2010	2009
Bills purchased		**P 636,408,389**	P 853,745,155
Accounts payable		**85,175,565**	96,421,802
Manager's check		**36,033,175**	50,579,594
Accrued expenses		**11,748,526**	22,496,864
Post-employment benefit obligation	17.2	**7,032,919**	22,270,468
Others		**74,573,118**	62,141,467
		P 850,971,692	P1,107,655,350

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

15. CAPITAL FUNDS

15.1 Capital Stock

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

	Shares		Amount	
	2010	2009	**2010**	2009
Preferred shares – P100 par value				
Authorized – 13,000,000 shares in 2010 and 2009				
Issued and subscribed:				
Balance at beginning of year	**6,200,000**	1,200,000	**P 620,000,000**	P 120,000,000
Subscriptions during the year	**-**	5,000,000	**-**	500,000,000
Balance at end of year	**6,200,000**	6,200,000	**620,000,000**	620,000,000
Subscriptions receivable			**(375,000,000)**	(375,000,000)
			P 245,000,000	P 245,000,000
Common shares – P100 par value				
Authorized – 17,000,000 shares in 2010 and 2009				
Issued and outstanding	**4,200,000**	4,200,000	**P 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 P1.0 billion, divided into seven million common shares and three million preferred shares to P3.0 billion, divided into P17.0 million common shares and P13.0 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 P125.0 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, 2010 and 2009, the balance of subscription receivables that relates to the five million subscribed preferred shares amounted to P375.0 million.

As of December 31, 2010, the Bank has seven stockholders owning 100 or more common shares each of the Bank's capital stock.

15.2 Appropriated Surplus

In 2010, the Bank reversed the appropriation on reserve for redemption of preferred shares amounting to P120.0 million back to unappropriated surplus.

In 2009, the Bank reversed the appropriation on reserve for self-insurance totalling P8.1 million back to unappropriated surplus since, instead of appropriation, the Bank increased its insurance coverage on cash on hand and in vault. As of December 31, 2009, appropriated surplus of P120.0 million pertains to reserve for redemption of preferred shares.

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, 2010 and 2009, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

16. MISCELLANEOUS INCOME AND EXPENSES

16.1 Miscellaneous Income

This account is composed of the following:

	2010	2009
Write-off of long outstanding payables	**P 14,511,557**	P -
Reversal of various accruals	**12,399,686**	-
Gain on foreclosure of investment properties	**9,096,006**	5,222,125
Trust fees	**6,103,861**	4,089,727
Gain on sale of investment properties – net	**-**	34,272,588
Miscellaneous	**16,699,070**	7,347,538
	P 58,810,180	P 50,931,978

16.2 Miscellaneous Expenses

This account is composed of the following:

	2010	2009
Advertising and publicity	**P 12,234,623**	P 3,253,833
Loss on sale of investment properties – net	**11,838,992**	-
Communication	**10,969,537**	9,320,943
Banking fees	**8,884,096**	4,462,090
Supplies	**8,196,508**	6,337,995
Litigation	**4,773,524**	5,608,519
Donations and contributions	**2,009,720**	133,300
Foreign currency loss - net	**975,553**	1,498,344
Miscellaneous	**20,012,909**	14,701,464
	P 79,895,462	P 45,316,488

17. EMPLOYEE BENEFITS

17.1 Salaries and Other Employee Benefits

Expenses recognized for salaries and other employee benefits are analyzed below.

	2010	2009
Salaries and wages	**P120,531,440**	P 97,204,896
Bonuses	**38,341,736**	39,912,652
Social security costs	**7,667,071**	5,784,439
Post-employment defined benefit plan	**6,906,959**	5,515,503
Short-term medical benefits	**301,675**	1,151,739
Other short-term benefits	**38,037,125**	15,356,261
	P211,786,006	P164,925,490

17.2 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 regularly 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 14):

	2010	2009
Present value of the obligation	**P 37,394,689**	P 29,136,959
Fair value of plan assets	**(34,893,924)**	(11,925,500)
Deficiency of plan assets	**2,500,765**	17,211,459
Unrecognized actuarial gains	**4,532,154**	5,059,009
	P 7,032,919	P 22,270,468

The movements in the present value of the post-employment benefit obligation recognized in the books are as follows:

	2010	2009
Balance at beginning of year	**P 29,136,959**	P 28,059,831
Current service and interest costs	**7,940,221**	8,061,442
Benefits paid	**(1,982,916)**	(1,473,265)
Actuarial losses (gains)	**2,300,425**	(5,511,049)
Balance at end of year	**P 37,394,689**	P 29,136,959

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

	2010	2009
Balance at beginning of year	**P 11,925,500**	P 11,774,987
Contributions paid into the plan	**22,144,508**	1,133,819
Expected return on plan assets	**954,040**	941,999
Benefits paid	**(1,982,916)**	(1,473,265)
Actuarial gains (losses)	**1,852,792**	(452,040)
Balance at end of year	**P 34,893,924**	P 11,925,500

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

	2010	2009
Current service cost	**P 5,609,263**	P 5,816,656
Interest cost	**2,330,958**	2,244,786
Expected return on plan assets	**(954,040)**	(941,999)
Net actuarial gain recognized during the year	**(79,222)**	(1,603,940)
	P 6,906,959	P 5,515,503

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

	2010	2009
Balance at beginning of year	**P 22,270,468**	P 17,888,784
Expense recognized	**6,906,959**	5,515,503
Contributions paid into the plan	**(22,144,508)**	(1,133,819)
Balance at end of year	**P 7,032,919**	P 22,270,468

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

	2010	2009
Discount rates	**7.86%**	8.00%
Expected rate of return on plan assets	**8.00%**	8.00%
Expected rate of salary increases	**5.00%**	8.00%

Presented below are the historical information related to the present value of the post-employment benefit obligation, fair value of plan assets and deficit in the plan (in thousand Philippine pesos) arising on plan assets and liabilities.

	2010	2009	2008	2007	2006
Present value of the obligation	**P 37,395**	P 29,137	P 28,060	P 27,759	P 20,122
Fair value of the plan assets	**34,894**	11,926	11,775	14,503	13,729
Deficit in the plan	**P 2,501**	P 17,211	P 16,285	P 13,256	P 6,393

18. RELATED PARTY TRANSACTIONS

18.1 Nature of Related Party Transactions

The significant transactions of the Bank in the normal course of business with related parties are described below.

a. The Bank has loan transactions with its officers and employees. The General Banking Act of the BSP provides that in the aggregate, loans to DOSRI generally should not exceed the Bank's total capital funds 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, 2010 and 2009, total loans extended to DOSRI amounted to P92.6 million and P32.5 million, respectively. As of December 31, 2010, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

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

	2010	2009
Total outstanding DOSRI loans	**P 92,592,169**	P 32,533,578
% to total loan portfolio	**0.83%**	0.34%
% of unsecured DOSRI loans to total DOSRI loans	**9.84%**	22.20%

The Bank has no past due DOSRI loans as of December 31, 2010 and 2009.

b. On January 28, 2010, the BOD approved a sale of an investment property with carrying value of P1.2 million for P4.0 million to a Bank officer. On March 16, 2009, the BOD approved a sale of an investment property with a carrying value of P3.3 million for P5.5 million to an affiliated company. There are no outstanding receivables from these DOSRI sale transactions as of December 31, 2010 and 2009.

c. The total balance of DOSRI deposits inclusive of the corresponding related accrued interest included in the financial statements amounted to P2.7 billion and P2.2 billion as of December 31, 2010 and 2009, respectively.

18.2 Key Management Personnel Compensations

Salaries and short-term benefits received by key management personnel in 2010 and 2009 are summarized below.

	2010	2009
Salaries and wages	**P 16,335,245**	P 15,078,800
Bonuses	**4,060,107**	3,769,699
Social security costs	**298,915**	222,360
Short-term medical benefits	**84,217**	170,000
Others	**1,458,910**	13,872,000
	P 22,237,394	P 33,112,859

19. TAXES

19.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Current tax expense:		
Final tax on income at 20%, 10% and 7.5%	**P 56,559,818**	P 37,856,833
Minimum corporate income tax (MCIT) at 2%	**11,394,468**	-
Regular corporate income tax (RCIT) at 30%	**999,877**	30,600,057
	68,954,163	68,456,890
Deferred tax income relating to origination and reversal of temporary differences	**(66,209,946)**	(22,024,260)
Tax expense reported in the statements of income	**P 2,744,217**	P 46,432,630

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

	2010	2009
Tax on pretax profit at 30%	**P 205,806,388**	P 79,265,543
Adjustment for income subjected to lower tax rates	**(49,762,803)**	(59,243,347)
Tax effects of:		
Non-taxable income	**(194,432,063)**	(5,079,886)
Non-deductible expenses	**41,132,695**	31,490,320
Tax expense reported in the statements of income	**P 2,744,217**	P 46,432,630

The net deferred tax assets as of December 31, 2010 and 2009 (included as part of Other Resources account – see Note 13) relate to the following:

	Statements of Financial Position		Statements of Income	
	2010	2009	**2010**	2009
Deferred tax assets:				
Allowance for impairment losses	**P 147,285,444**	P 87,489,397	**(P 59,796,047)**	(P 19,641,250)
MCIT	**11,394,468**	-	**(11,394,468)**	1,791,599
Accumulated depreciation of investment properties and other resources	**7,457,141**	6,213,276	**(1,243,865)**	(1,218,765)
Unamortized past service cost	**4,464,516**	-	**(4,464,516)**	-
Post-employment benefit obligation	**2,109,876**	6,681,140	**4,571,264**	(1,314,505)
Provision for contingencies	**1,029,510**	4,749,416	**3,719,906**	-
Unrealized fair value losses	**-**	-	**-**	142,473
Deferred tax liability:				
Gain on initial recognition of investment properties	**(27,029,584)**	(24,631,804)	**2,397,780**	(1,783,812)
Net Deferred Tax Assets	**P 146,711,371**	P 80,501,425		
Deferred Tax Income			**(P 66,209,946)**	(P 22,024,260)

The Bank is subject to MCIT which is 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 Previous Year	Remaining Balance	Valid Until
2010	P 11,394,468	P -	P 11,394,468	2013
2008	1,791,599	1,791,599	-	2011
	P 13,186,067	P 1,791,599	P 11,394,468	

In 2009, the Bank applied MCIT incurred and paid in 2008 amounting to P1,791,599 against its RCIT. No MCIT was reported in 2009 as the RCIT was higher than the MCIT.

19.2 Optional Standard Deduction (OSD)

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40% of gross income. Once the option is made at the beginning of the taxable year, it shall be irrevocable for the taxable year for which the option was made. In 2010 and 2009, the Bank opted to claim itemized deductions.

20. 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 P40.7 million and P30.3 million in 2010 and 2009, respectively, and is included as part of Occupancy account in the statements of income. As of December 31, 2010 and 2009, future minimum rental payments required by the lease contracts are as follows:

	2010	2009
Within one year	**P 37,069,702**	P 29,945,087
After one year but not more than five years	**105,385,295**	93,655,508
More than five years	**31,279,490**	46,975,338
	P 173,734,487	P 170,575,933

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.

As of December 31, 2010, the Bank's management believes that losses, if any, from the above commitments and contingencies will not have material effect on the Bank's financial statements.

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

	2010	2009
Investment management accounts	**P 1,622,653,555**	P 1,373,391,704
Outstanding letters of credit	**340,984,649**	125,043,000
Trust and other fiduciary accounts	**52,066,319**	46,885,662
Unit investment trust fund	**9,443,885**	9,412,947
Late deposits/payments received	**9,477,251**	7,916,039
Outward bills for collection	**5,200,255**	511,765
Items held for safekeeping	**21,160**	942,510
Items held as collateral	**5,944**	3,760
Other contingent accounts	**300,849,092**	415,775,317
	P 2,340,702,110	P 1,979,882,704

21. 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:

	2010	2009
Due from BSP	**P 570,010,682**	P 181,185,091
Loans and other receivables	**621,309,519**	1,178,374,480
Due from other banks	**24,099,453**	34,151,349
Investment securities	**486,545,776**	35,979,393
	P 1,701,965,430	P 1,429,690,313

In compliance with the current banking regulations relative to the Bank's trust functions, government bonds owned by the Bank with face value of P26.0 million and P34.1 million as of December 31, 2010 and 2009, respectively, are deposited with BSP (see Note 7).

22. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2010	2009
Return on average capital		
Net profit / Average total capital accounts	**32.71%**	14.18%
Return on average resources		
Net profit / Average total resources	**3.52%**	1.47%
Net interest margin		
Net interest income / Average interest earning resources	**5.02%**	4.89%
Capital to risk assets ratio		
Total capital / Risk resources	**22.77%**	16.34%

c. Secured Liabilities and Resources Pledged as Security

As of December 31, 2010 and 2009, there are no secured liabilities and assets pledged as security.

23. NOTES TO STATEMENT OF CASH FLOWS

The fair value of the resources transferred from KRBI considered as noncash in the 2010 statement of cash flows are as follows:

	Notes		
Loans and other receivables	8	P	5,008,884
Bank premises	9		4,873,267
Investment properties	10		13,522,477
Other resources			853,085
		P	24,257,713

24. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS (RR) 15-2010

On November 25, 2010, the BIR issued RR 15-2010, which requires certain information on taxes, duties and license fees paid or accrued for the year ended December 31, 2010 to be disclosed as part of the notes to financial statements. This supplementary information is, however, not a required part of the basic financial statements prepared in accordance with FRSPB; it is neither a required disclosure under the Philippine Securities and Exchange Commission rules and regulations covering form and content of financial statements under Securities Regulation Code Rule 68. The supplementary information is presented as follows:

24.1 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 2010, the Bank reported total GRT amounting to P103,102,396 shown under Taxes and Licenses account (see Note 24.3). GRT paid during the year amounted to P83,975,275, exclusive of December 2009 GRT paid during 2010. Total gross receipts tax payable as of December 31, 2010 amounted to P19,127,121, included as part of Others under Accrued Expenses and Other Liabilities account in the 2010 statement of financial position (see Note 14).

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.

24.2 Documentary Stamp Tax (DST)

The Bank is enrolled under the Electronic Documentary Stamp Tax (e-DST) System starting July 2010. Prior to the enrollment, the Bank remitted DST amounting to P43,393,025 while DST remittance thru e-DST amounted to P30,652,003. In general, the Bank's DST transactions arise from the execution of debt instruments, lease contracts and deposit liabilities.

Documentary stamp tax on loan documents amounting to P55,955,427 in 2010 were significantly charged by the Bank to borrowers, which is properly withheld and remitted.

24.3 Taxes and Licenses

The details of Taxes and Licenses account for the year ended December 31, 2010 are broken down as follows:

Gross receipts tax	P 103,102,396
Documentary stamp tax	37,084,822
Business tax	4,148,810
Real property tax	2,710,165
Miscellaneous	23,248,621
	P 170,294,814

24.4 Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2010 are shown below.

Final	P 83,021,342
Compensation and benefits	22,229,752
Expanded	5,629,968
	P 110,881,062

24.5 Deficiency Tax Assessments and Tax Cases

As of December 31, 2010, 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.

24.6 Other Required Tax Information

The Bank has not paid or accrued any excise taxes or customs duties and tariff fees as it has no importation for the year ended December 31, 2010.

Punongbayan & Araullo

Report of Independent Auditors

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The Board of Directors
Philippine Business Bank, Inc. A Savings Bank
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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, 2011 and 2010, and the statements of income, statements of comprehensive income, statements of changes in capital funds 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, 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, 2011 required by the Bureau of Internal Revenue as disclosed in Note 26 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. 3174790, January 2, 2012, Makati City
SEC Group A Accreditation
Partner - No. 009-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, 2012)

April 16, 2012

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2011	2010
RESOURCES			
CASH AND OTHER CASH ITEMS	6	**P 297,076,011**	P 243,967,572
DUE FROM BANGKO SENTRAL NG PILIPINAS	6	**1,119,319,376**	383,659,746
DUE FROM OTHER BANKS	7	**630,690,655**	385,008,004
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	8	**207,742,896**	-
AVAILABLE-FOR-SALE SECURITIES	9	**5,710,865,520**	6,623,022,640
LOANS AND OTHER RECEIVABLES - Net	10	**16,704,655,545**	13,369,671,794
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**340,824,112**	320,370,895
INVESTMENT PROPERTIES - Net	12	**397,393,144**	282,528,711
OTHER RESOURCES - Net	13	**476,251,433**	506,994,058
TOTAL RESOURCES		**P 25,884,818,692**	P 22,115,223,420
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	14		
Demand		**P 318,440,285**	P 403,363,157
Savings		**8,733,282,429**	8,870,638,774
Time		**12,143,265,403**	8,313,404,494
Total Deposit Liabilities		**21,194,988,117**	17,587,406,425
BILLS PAYABLE	15	**121,482,599**	1,213,002,192
ACCRUED EXPENSES AND OTHER LIABILITIES	16	**895,612,333**	850,971,692
Total Liabilities		**22,212,083,049**	19,651,380,309
CAPITAL FUNDS	17	**3,672,735,643**	2,463,843,111
TOTAL LIABILITIES AND CAPITAL FUNDS		**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, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2011	2010
INTEREST INCOME			
Loans and other receivables	10	**P 963,876,515**	P 930,705,018
Investment securities	8, 9	**615,377,020**	382,954,936
Securities purchased under reverse repurchase agreements		**59,436,144**	30,144,778
Due from Bangko Sentral ng Pilipinas and other banks	6, 7	**19,281,830**	15,037,573
		1,657,971,509	1,358,842,305
INTEREST EXPENSE			
Deposit liabilities	14	**536,224,396**	400,269,297
Bills payable and other liabilities	15	**36,235,312**	48,625,871
		572,459,708	448,895,168
NET INTEREST INCOME		**1,085,511,801**	909,947,137
IMPAIRMENT LOSSES	10	**50,000,000**	199,320,155
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**1,035,511,801**	710,626,982
OTHER INCOME			
Trading gains - net	8, 9	**594,880,835**	608,212,620
Service charges, fees and commissions		**65,543,065**	113,694,316
Miscellaneous	18	**102,527,458**	58,810,180
		762,951,358	780,717,116
OTHER EXPENSES			
Employee benefits	19	**255,380,658**	211,786,006
Taxes and licenses	26	**178,324,986**	170,294,814
Occupancy	22	**124,984,179**	102,664,591
Management and other professional fees		**91,047,068**	87,208,614
Depreciation and amortization	11, 12, 13	**63,197,800**	49,076,217
Transportation and travel		**55,647,650**	44,958,621
Insurance		**47,580,555**	40,960,409
Representation and entertainment		**23,829,965**	18,478,070
Miscellaneous	18	**111,934,801**	79,895,462
		951,927,662	805,322,804
PROFIT BEFORE TAX		**846,535,497**	686,021,294
TAX EXPENSE	21	**99,561,375**	2,744,217
NET PROFIT		**P 746,974,122**	P 683,277,077

See Notes to Financial Statements.

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

	Note	2011	2010
NET PROFIT		**P 746,974,122**	P 683,277,077
OTHER COMPREHENSIVE INCOME			
Fair value gains on available-for-sale securities during the year - net	9	**433,888,338**	45,184,502
Fair value loss recycled to profit or loss	9	**28,030,072**	20,885,122
		461,918,410	66,069,624
TOTAL COMPREHENSIVE INCOME		**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 CAPITAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in Philippine Pesos)

		Capital Stock		Surplus		Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Total Capital Funds
	Note	Preferred Stock	Common Stock	Appropriated	Unappropriated		
BALANCE AS OF JANUARY 1, 2011	17	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	17	-	-	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	17	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
Reversal of appropriation	17	-	-	(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, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 846,535,497	P 686,021,294
Adjustments for:			
Depreciation and amortization	11, 12, 13	63,197,802	49,076,217
Impairment losses	10	50,000,000	199,320,155
Gain on foreclosure - net	18	(32,028,960)	(9,096,006)
Loss (gain) on sale of properties - net	18	(9,199,762)	11,838,992
Operating profit before working capital changes		918,504,577	937,160,652
Increase in loans and other receivables		(1,933,185,215)	(1,180,853,654)
Increase in financial assets at fair value through profit or loss		(207,742,896)	-
Decrease in other resources		43,823,968	32,418,175
Increase in deposit liabilities		3,607,581,692	4,904,643,951
Increase (decrease) in accrued expenses and other liabilities		64,639,680	(288,486,569)
Cash generated from operations		2,493,621,806	4,404,882,555
Cash paid for income taxes		(132,455,753)	(96,281,826)
Net Cash From Operating Activities		2,361,166,053	4,308,600,729
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Net disposals (acquisitions) of available-for-sale securities	9	1,374,075,530	(3,332,149,589)
Proceeds from sale of investment properties and other properties	12, 13	47,147,364	40,651,005
Net acquisitions of bank premises, furniture, fixtures and equipment	11	(71,418,634)	(39,122,345)
Net payment for merger consideration		-	(15,005,533)
Net Cash From (Used in) Investing Activities		1,349,804,260	(3,345,626,462)
CASH FLOWS USED IN FINANCING ACTIVITY			
Net payments of bills payable		(1,091,519,593)	(1,711,644)
NET INCREASE IN CASH AND CASH EQUIVALENTS *(Balance Carried Forward)*		P 2,619,450,720	P 961,262,623

	Notes	2011	2010
NET INCREASE IN CASH AND CASH EQUIVALENTS *(Balance Brought Forward)*		**P 2,619,450,720**	P 961,262,623
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**243,967,572**	192,825,023
Due from Bangko Sentral ng Pilipinas		**383,659,746**	207,555,347
Due from other banks	7	**385,008,004**	202,992,329
Securities purchased under reverse repurchase agreements	10	**1,169,000,000**	617,000,000
		2,181,635,322	1,220,372,699
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		**297,076,011**	243,967,572
Due from Bangko Sentral ng Pilipinas		**1,119,319,376**	383,659,746
Due from other banks	7	**630,690,655**	385,008,004
Securities purchased under reverse repurchase agreements	10	**2,754,000,000**	1,169,000,000
		P 4,801,086,042	P 2,181,635,322

Supplemental Information on Noncash Operating and Investing Activities:

1. The fair value 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 1).

2. Transfers from loans and other receivables to investment properties as a result of foreclosures amounted to P127.9 million and P16.1 million in 2011 and 2010, respectively (see Note 12) while transfers from loans and other receivables to other properties as a result of foreclosure amounted to P5.4 million in 2011 (nil in 2010) as disclosed in Note 13. Amounts mentioned were exclusive of gains on foreclosure amounting to P32.0 million and P9.1 million in 2011 and 2010, respectively (see Note 18).

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Amounts in Philippine Pesos)

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, 2011, the Bank operates within the Philippines with 65 branches located in Metro Manila and in the provinces. Ten of these branches were opened during 2011.

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.

1.02 Merger with Kabalikat Rural Bank, Inc. (KRBI)

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 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 Philippine Securities and Exchange Commission (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 assumed of P33,878,393. As such, the Bank recognized goodwill amounting to P49,878,393 representing excess of purchase price over the fair value of KRBI's net assets. The goodwill is included as part of Other Resources account in the statements of financial position (see Note 13).

1.03 Approval of Financial Statements

The financial statements of the Bank for the year ended December 31, 2011 (including the comparatives for the year ended December 31, 2010) were authorized for issue by the Board of Directors (BOD) on April 16, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized in the succeeding pages. The 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 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 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 9) as allowed under FRSP. As of December 31, 2011 and 2010, the unamortized fair value gains related to debt securities previously reclassified from AFS securities to HTM investments amounted to P0.5 million and P2.7 million, respectively.

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

These financial statements have been prepared using the measurement bases specified by FRSP for each type of resources, liabilities, income and expenses. 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.

(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 2011 that are Relevant to the Bank*

In 2011, the Bank adopted the following amendments, interpretation and annual improvements to PFRS that are relevant to the Bank and effective for financial statements for the annual period beginning on or after July 1, 2010 or January 1, 2011:

PAS 24 (Amendment)	:	Related Party Disclosures
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 14 (Amendment)	:	Prepayment of a Minimum Funding Requirement
IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments
Various Standards	:	2010 Annual Improvements to PFRS

Discussed below are relevant information about these new and amended standards:

(i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any significant changes on the Bank's disclosures of related parties in its financial statements.

(ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Bank is not subject to minimum funding requirements and it does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its financial statements.

(iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

The adoption of the interpretation did not have a material effect on the Bank's financial statements as it did not extinguish financial liabilities through equity swap during the year.

(iv) 2010 Annual Improvements to PFRS. Most of these amendments became effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. Among those improvements, only the following amendments which are effective from January 1, 2011 were identified to be relevant to the Bank's financial statements but which did not have any material impact on its financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. As the Bank's other comprehensive income only includes fair value changes on AFS securities, the Bank has elected to present total other comprehensive income in the statement of changes in equity.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. This amendment has no significant effect on the financial statements since the Bank already provides adequate information in its financial statements in compliance with the disclosure requirements.

(b) Effective in 2011 that are not Relevant to the Bank

The following amended standards and interpretations are mandatory for accounting periods beginning on or after January 1, 2011 but are not relevant to the Bank's financial statements:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Classification of Rights Issues
PFRS 1 (Amendment)	:	First-Time Adoption of PFRS – Limited Exemption from PFRS 7 Comparative Disclosures
Philippine Interpretation IFRIC 13 (Amendments)	:	Customer Loyalty Programmes – Fair Value Award Credits
2010 Annual Improvements		
PAS 21 (Amendment)	:	The Effects of Changes in Foreign Exchange Rates
PAS 28 (Amendment)	:	Investment in Associates
PAS 31 (Amendment)	:	Interests in Joint Ventures
PAS 34 (Amendment)	:	Interim Financial Reporting – Significant Events and Transactions
PFRS 1 (Amendment)	:	First-time Adoption of PFRS
PFRS 3 (Amendment)	:	Business Combinations

(c) Effective Subsequent to 2011 but not Adopted Early

There are new PFRS, and revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2011. 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) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). 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 does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Bank's disclosures in its financial statements.

(ii) 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 PFRSs: (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 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 and losses on AFS securities which can be reclassified to profit or loss when specified conditions are met.

(iii) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment 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 to through participation in them.

Currently, the Bank is using the corridor approach. The unrecognized actuarial losses as of December 31, 2011 amounted to P13.7 million. These will be retrospectively recognized as loss in other comprehensive income in 2013 (see Note 19.02).

(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. The Bank is yet to assess the impact of this new standard.

(v) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39 in its entirety. This chapter 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.

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.

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 2.14).

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 the 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 Financial Instruments

2.04.01 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. 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, 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 entity to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Subsequent to initial recognition, 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 Securities

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 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 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 as AFS securities under PFRS, and the Bank will be prohibited from holding investments under the HTM category for the next two years after 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 (1) 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; (2) occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (3) 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 those arising from direct loans to customers, interbank loans, 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 and Loans and Other Receivables in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items and due from BSP and other banks and securities under reverse repurchase agreements.

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 (Amendments). 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.

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 rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.04.02 Offsetting Financial Instruments

Financial assets and liabilities are set-off and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to offset 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.

2.04.03 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: significant financial difficulty of the issuer or debtor; a breach of contract, such as a default or delinquency in interest or principal payments; it is probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or 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, it includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. 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 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 statement of income. If loans 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.

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 estimated 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 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 statement of income.

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 the statement of income.

(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 capital funds and recognized in the statement of income.

Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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

If there is objective evidence of impairment for any of the unquoted equity securities carried at cost, the amount of impairment loss is recognized. 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.

2.04.04 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 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.

2.05 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. When assets are sold, retired or otherwise disposed of, the cost and their related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

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 lives of the improvements, 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 2.14).

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

An item of bank premises, furniture, fixtures and equipment 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.

2.06 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) the fair value of neither 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 on foreclosure of investment properties under Miscellaneous Income in the statement of income. Investment properties except land are depreciated over a period of five to ten years, prior to 2011, the Bank depreciates investment properties for a period of 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 in profit or loss in the year of retirement or disposal.

2.07 Intangible Assets

Intangible assets include goodwill and acquired branch licenses which are accounted for under the cost model.

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 is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.14). For purposes of impairment testing, goodwill is allocated to cash-generating units (see Note 2.14) and is subsequently carried at cost less any accumulated impairment losses.

Acquired branch licenses (included as part of Other Resources) used in operations 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. The acquired branch license is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but would require an annual test for impairment (see Note 2.14). Branch licenses are subsequently carried at cost less any accumulated impairment losses.

2.08 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 pretax 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.

2.09 Capital Funds

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

Appropriated surplus pertains to appropriations made by the Bank for self-insurance, for redemption of preferred shares and 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 as disclosed in the statement of income, less appropriated surplus.

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

2.10 Related Party 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 exercise significant influence over the other party in making financial and operating decisions. These 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; and, (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.

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

2.11 Revenue and Expense Recognition

2.11.01 Interest Income and Expense

Interest income and expense are recognized in the statement of income for all instruments measured at amortized cost 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 the future cash flows for the purpose of measuring the impairment loss.

2.11.02 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.

2.11.03 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.

2.12 Leases – 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 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.

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.

2.13 Foreign Currency Transactions

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 such 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.

2.14 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses and other properties held for sale (classified as Other Resources) 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 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. 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.

2.15 Employee Benefits

(a) Post-employment Benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution 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 pension plan is tax-qualified, non-contributory and administered by a trustee.

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 of high quality corporate bonds 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.

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 included in current liabilities or current assets as they are normally of a short-term nature.

(b) *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 reporting period are discounted to present value.

(c) *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.

(d) 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.

2.16 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 capital funds, 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.

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 to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of income. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly to capital funds are recognized in other comprehensive income or credited directly in capital funds.

2.17 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 not resources and income of the Bank.

2.18 Event After 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 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) 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 9), 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 9). 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.

(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, 2011 and 2010. 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 its 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 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) *Operating and Finance Leases*

The Bank has entered into various lease agreements as a lessee. 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) *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 2.08 and relevant disclosures are presented in Note 22.

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 9 and 10, 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 during the years on those assets are disclosed in Notes 8 and 9, 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.

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

As of December 31, 2011, financial assets at FVTPL and AFS securities amounting to P0.2 billion and P5.7 billion, respectively, are the financial assets (nil for liabilities) measured at fair value in the 2011 statement of financial position while as of December 31, 2010, AFS securities amounting to P6.6 billion are the only financial assets (nil for liabilities) measured at fair value in the 2010 statement of financial position. The financial asset values are determined under Level 1 of the fair value hierarchy.

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

	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**

	2011	
	Cost	**Fair Value**
Financial Liabilities:		
Deposit liabilities	**21,194,988,117**	**21,194,988,117**
Bills payable	**121,482,599**	**121,482,599**
Accrued expenses and other liabilities	**883,657,913**	**883,657,913**

	2010	
	Cost	Fair Value
Financial Resources:		
Cash and other cash items	P 243,967,572	P 243,967,572
Due from BSP	383,659,746	383,659,746
Due from other banks	385,008,004	385,008,004
Loans and other receivables	13,858,329,898	13,369,671,794
Other resources	25,683,643	25,683,643
Financial Liabilities:		
Deposit liabilities	17,587,406,425	17,587,406,425
Bills payable	1,213,002,192	1,213,002,192
Accrued expenses and other liabilities	824,811,652	824,811,652

(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 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) 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.

(iv) Accrued expenses and other liabilities

Accrued expenses and other liabilities, except 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) 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 11 and 12, respectively. Based on management assessment, there is no change in 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) 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, 2011 and 2010 is disclosed in Notes 13 and 21.

(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 2.14. 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 are discussed in Note 12. There are no impairment losses recognized in goodwill, acquired branch licenses, bank premises, furniture, fixtures and equipment and other properties.

(g) Post-employment Benefits

The determination of the Bank's obligation and cost of post-employment is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 19.02 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 retirement benefit obligation and expense and an analysis of the movements in the estimated present value of DBO are presented in Note 19.02.

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 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 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 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.

4.02 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 P15.00 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, 2011 and 2010 (amounts in thousands).

	2011	2010
Individually impaired		
Wholesale and retail trade	**P 366,921**	P 588,264
Manufacturing	**592,291**	374,057
Real estate, renting and construction	**373,836**	414,424
Consumption	**56,376**	82,264
Others	**1,066,372**	696,031
Gross amount	**2,455,796**	2,155,040
Allowance for impairment	**(449,295)**	(440,645)
Carrying amount	**2,006,501**	1,714,395
Collectively impaired		
Wholesale and retail trade	**6,721**	59,907
Consumption	**-**	36,183
Others	**18,130**	156,611
Gross amount	**24,851**	252,701
Allowance for impairment	**(5,759)**	(48,013)
Carrying amount	**19,092**	204,688
Balance Carried Forward	**P 2,025,593**	P 1,919,083

	2011	2010
Balance Brought Forward	**P 2,025,593**	P 1,919,083
Past due but not impaired		
Carrying amount	**22,570**	49,410
Neither past due nor impaired		
Carrying amount	**14,656,493**	11,401,179
Total carrying amount	**P 16,704,656**	P 13,369,672

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 P5,918.6 million and P630.7 million, respectively, in 2011 and P6,623.0 million and P385.0 million, respectively, in 2010. These are considered as neither past due nor impaired.

The carrying amount of the above loans and other receivables are partially secured with collateral is 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.

4.03 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.

4.03.01 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 from 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 peso) and peso-denominated balances as of December 31, 2011 and 2010 follow (amounts in thousands):

	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	97,088	110,655	207,743
AFS securities	1,866,194	3,844,672	5,710,866
Loans and other receivables - net	59,726	16,644,929	16,704,655
Other resources	18,339	10,027	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

	2010		
	Foreign Currency	Peso	Total
Financial Resources:			
Cash and other cash items	P -	P 243,968	P 243,968
Due from BSP	-	383,660	383,660
Due from other banks	63,514	321,494	385,008
AFS securities	1,918,845	4,704,178	6,623,023
Loans and other receivables - net	114,760	13,254,912	13,369,672
Other resources	16,153	9,530	25,683
Financial Liabilities:			
Deposit liabilities	2,175,939	15,411,468	17,587,407
Bills payable	-	1,213,002	1,213,002
Accrued expenses and other liabilities	64,046	760,766	824,812

4.03.02 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 Earnings at Risk (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, capital funds and off-statement of position items as of December 31, 2011 and 2010 based on the expected interest realization or recognition are presented below (amounts in thousands):

	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 Capital Funds						
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
Capital Funds	-	-	-	-	3,672,736	3,672,736
Total Liabilities and Capital Funds	2,710,215	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 -**

	2010					
	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 243,968	P 243,968
Due from BSP	383,660	-	-	-	-	383,660
Due from other banks	385,008	-	-	-	-	385,008
AFS securities	-	9,987	265,028	6,348,008	-	6,623,023
Loans and other receivables - net	5,365,846	2,757,000	2,284,484	2,962,342	-	13,369,672
Other resources	-	-	-	-	25,683	25,683
Total Resources	6,134,514	2,766,987	2,549,512	9,310,350	269,651	21,031,014
Liabilities and Capital Funds						
Deposit liabilities	6,202,186	2,877,747	1,950,182	930,274	5,627,018	17,587,407
Bills payable	671,448	45,014	393,647	102,893	-	1,213,002
Accrued expenses and other liabilities	-	-	-	-	824,812	824,812
Total Liabilities	6,873,634	2,922,761	2,343,829	1,033,167	6,451,830	19,625,221
Capital Funds	-	-	-	-	2,463,843	2,463,843
Total Liabilities and Capital Funds	6,873,634	2,922,761	2,343,829	1,033,167	8,915,673	22,089,064
On-book Gap	(739,120)	(155,774)	205,683	8,277,183	(8,646,022)	(1,058,050)
Cumulative On-book Gap	(739,120)	(894,894)	(689,211)	7,587,972	(1,058,050)	-
Contingent Resources	424,905	-	9,500	2,283,151	-	2,717,556
Contingent Liabilities	-	-	-	-	711,587	711,587
Off-book Gap	424,905	-	9,500	2,283,151	(711,587)	2,005,969
Net Periodic Gap	(314,215)	(155,774)	215,183	10,560,334	(9,357,609)	947,919
Cumulative Total Gap	(P 314,215)	(P 469,989)	(P 254,806)	P10,305,528	P 947,919	P -

4.03.03 Price Risk

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs Value-at-Risk (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, 2011 and 2010.

	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%	11,627,914	36,770,694
20 years	6.10%	0.70%	78,981,805	249,762,397

	2010			
Term	Yield to Maturity	Rate Volatility	VaR	VaR (10-day Defeasance)
Over 3 months	1.20%	12.33%	P 119,033,675	P 376,417,531
6 months	1.50%	7.08%	-	-
1 year	2.45%	4.46%	9,779	30,924
2 years	3.43%	2.88%	202,612	640,715
3 years	4.10%	1.50%	57,518	181,888
4 years	4.37%	1.33%	-	-
5 years	4.78%	1.82%	-	-
7 years	4.90%	2.18%	15,422,574	48,770,462
10 years	5.89%	1.34%	8,164,014	25,816,878
20 years	8.10%	1.66%	20,040,440	63,373,435

Stress test on the December 31, 2011 and 2010 portfolio shows the potential impact on profit and capital funds of parallel increase in interest rates of financial assets at FVTPL and AFS securities as follows:

	2011			
	Current	**Sensitivities**		
Currency	**Market Value**	**+100 bps**	**+300 bps**	**+500 bps**
Peso	P3,955,326,237	(P 458,062,753)	(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)**	**(P 1,916,451,946)**	**(P 3,194,086,577)**

	2010			
	Current	Sensitivities		
Currency	Market Value	+100 bps	+300 bps	+500 bps
Peso	P4,704,177,509	(P 476,486,742)	(P1,429,460,225)	(P 2,382,433,708)
US Dollar	1,918,845,131	(160,632,837)	(481,898,510)	(803,164,183)
Total	P6,623,022,640	(P 637,119,579)	(P1,911,358,735)	(P 3,185,597,891)

4.03.04 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 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 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.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-statement financial position items as of December 31, 2011 and 2010 is presented below (amounts in thousands).

	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	3,529,324	3,151,993	3,691,211	16,704,656
Bank premises, furniture, fixtures and equipment	-	-	-	340,824	340,824
Investment properties	-	-	-	397,393	397,393
Other resources	213,535	-	84,428	178,288	476,251
Total Resources	8,224,749	3,897,324	3,247,039	10,515,707	25,884,819
Liabilities and Capital Funds:					
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	P 15,069,969	P 4,994,660	P 1,862,814	P 284,640	P 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	738,052
Cumulative Total Gap	**(P 6,198,732)**	**(P 7,695,845)**	**(P 6,949,037)**	**P 738,052**	**P -**

	2010				
	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 243,968	P -	P -	P -	P 243,968
Due from BSP	383,660	-	-	-	383,660
Due from other banks	385,008	-	-	-	385,008
AFS securities	-	9,987	265,028	6,348,008	6,623,023
Loans and other receivables	5,365,846	2,757,000	2,284,484	2,962,342	13,369,672
Bank premises, furniture, fixtures and equipment	-	-	-	320,371	320,371
Investment properties	-	-	-	282,528	282,528
Other resources	68,990	-	174,369	263,635	506,994
Total Resources *(Balance Carried Forward)*	P 6,447,472	P 2,766,987	P 2,723,881	P 10,176,884	P 22,115,224

	2010				
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
Total Resources *(Balance Brought Forward)*	P 6,447,472	P 2,766,987	P 2,723,881	P 10,176,884	P 22,115,224
Liabilities and Capital Funds:					
Deposit liabilities	11,829,204	2,877,747	1,950,182	930,274	17,587,407
Bills payable	671,448	45,014	393,647	102,893	1,213,002
Accrued expenses and other liabilities	672,441	83,653	92,547	2,331	850,972
Total Liabilities	13,173,093	3,006,414	2,436,376	1,035,498	19,651,381
Capital Funds	-	-	-	2,463,843	2,463,843
Total Liabilities and Capital Funds	13,173,093	3,006,414	2,436,376	3,499,341	22,115,224
On-book Gap	(6,725,621)	(239,427)	287,505	6,677,543	-
Cumulative On-book Gap	(6,725,621)	(6,965,048)	(6,677,543)	-	-
Contingent Resources	424,905	-	9,500	2,283,151	2,717,556
Contingent Liabilities	175,254	264,314	271,218	801	711,587
Off-book Gap	249,651	(264,314)	(261,718)	2,282,350	2,005,969
Net Periodic Gap	(6,475,970)	(503,741)	25,787	8,959,893	2,005,969
Cumulative Total Gap	(P 6,475,970)	(P 6,979,711)	(P 6,953,924)	P 2,005,969	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 which are mostly in the form of Current Account Savings Account (CASA) deposits. 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 AFS securities. Moreover, the Board 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. Any breach in the MCO Limit is analyzed with the Board through the Risk Committee for corrective action.

As additional measures to mitigate liquidity risks, the Bank performs regular BOD-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 for 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 capital funds 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, 2011 and 2010, the Bank has satisfactorily complied with the capital-to-risk assets ratio (see Note 24).

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. At the end of 2010, 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 end of 2011.

6. CASH AND DUE FROM BSP

This account is composed of the following:

	2011	2010
Cash and other cash items	**P 297,076,011**	P 243,967,572
Due from BSP		
Mandatory reserves	**368,000,000**	57,000,000
Other than mandatory reserves	**751,319,376**	326,659,746
	1,119,319,376	383,659,746
	P 1,416,395,387	P 627,627,318

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 0.13% to 0.25% in 2011 and from 0.20% to 0.38% in 2010, except for the amounts within the required reserve as determined by the BSP. Total interest income earned amounted to P16.9 million and P9.4 million in 2011 and 2010, respectively, and is 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 percent 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.

7. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2011	2010
Local banks	**P 482,974,569**	P 331,182,097
Foreign banks	**147,716,086**	53,825,907
	P 630,690,655	P 385,008,004

Interest rates on these deposits range from 0.25% to 2.75% and 0.25% to 2.50% per annum in 2011 and 2010, respectively. Total interest income earned amounted to P2.4 million and P5.6 million in 2011 and 2010, respectively, and is 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 is as follows:

	2011	2010
US dollar	**P 539,250,928**	P 63,513,654
Peso	**91,439,727**	321,494,350
	P 630,690,655	P 385,008,004

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held for trading government securities with fair value of P207.7 million as of December 31, 2011 (nil in 2010) which earn interest ranging from 6.38% to 8.75% per annum. Related unrealized fair value gains, presented as part of Trading Gains - net in the 2011 statement of income, amounted to P5.5 million.

9. AVAILABLE-FOR-SALE SECURITIES

This account is mainly composed of the following:

	2011	2010
Government securities	**P 4,959,486,972**	P 5,523,662,264
Other securities and debt instruments	**751,378,548**	1,099,360,376
	P 5,710,865,520	P 6,623,022,640

As to currency, the account consists of the following:

	2011	2010
Philippine peso	**P 3,844,671,779**	P 4,704,177,509
Foreign currency	**1,866,193,741**	1,918,845,131
	P 5,710,865,520	P 6,623,022,640

Changes in the AFS securities are summarized below.

	2011	2010
Balance at beginning of year	**P 6,623,022,640**	P 3,245,688,549
Additions	**10,977,153,805**	21,905,757,726
Fair value gains	**467,638,969**	45,184,502
Amortization of discount (premium)	**(28,479,370)**	17,778,526
Foreign currency revaluation	**4,944,443**	(76,228,751)
Disposals	**(12,333,414,967)**	(18,515,157,912)
	P 5,710,865,520	P 6,623,022,640

The reconciliation of unrealized fair value gains on AFS securities reported in capital funds is shown below.

	2011	2010
Balance at beginning of year	**P 59,976,876**	(P 6,092,748)
Changes during the year:		
Fair value gains during the year	**467,638,969**	45,184,502
Realized fair value losses (gains) on AFS securities disposed during the year	**(5,433,394)**	18,166,084
Amortization of fair value losses (gain) on reclassified AFS securities	**(287,165)**	2,719,038
	461,918,410	66,069,624
Balance at end of year	**P 521,895,286**	P 59,976,876

AFS securities earn interest of 5.5% to 11.38% and 6.50% to 11.38% per annum in 2011 and 2010, respectively. Fair value losses recycled to profit or loss from capital funds resulting from the sale of AFS securities amounted to P28.3 million and P18.2 million in 2011 and 2010, respectively, are included in Trading Gains - net in the statements of income.

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 date of reclassification on September 11, 2008.

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. As of December 31, 2011 and 2010, the fair value of these reclassified securities amounted to P23.9 million and P289.8 million, respectively, including the unamortized fair value gains amounting to P0.5 million and P2.7 million, respectively, related to debt securities previously reclassified from AFS category to HTM investments. These amounts will be amortized over the remaining life of the reclassified investments or recognized to profit or loss upon sale, whichever comes earlier. 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 at HTM investments until September 13, 2011, which is at least two full years from the date of the reclassification.

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 and P26.0 million as of December 31, 2011 and 2010, respectively, are deposited with the BSP (see Note 23).

10. LOANS AND OTHER RECEIVABLES

Loans and other receivables consist of the following:

	2011	2010
Loans and discounts:		
Loans and discounts	**P 11,108,879,023**	P 8,638,224,474
Bills purchased	**596,139,950**	646,975,434
Customers' liabilities on acceptances, letters of credit and trust receipts	**1,905,973,799**	1,928,016,653
	13,610,992,772	11,213,216,561
Unearned discount	**(54,740,908)**	(26,030,625)
	13,556,251,864	11,187,185,936
Other receivables:		
Securities purchased under reverse repurchase agreements	**2,754,000,000**	1,169,000,000
Unquoted debt securities	**620,409,664**	1,341,000,000
Accrued interest receivable	**103,640,510**	95,846,195
Sales contracts receivable	**44,809,169**	49,796,731
Deficiency claims receivable	**59,198,952**	11,550,508
Accounts receivable	**58,001,421**	3,950,528
	3,640,059,716	2,671,143,962
	17,196,311,580	13,858,329,898
Allowance for impairment losses	**(491,656,035)**	(488,658,104)
	P 16,704,655,545	P 13,369,671,794

On various dates in 2002, the Bank purchased P259 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. The Accounts receivable include P36.7 million receivable set up by the Bank to represent receivable for the final tax withheld by the BTr upon maturity of the bonds subject to the Supreme Court decision on the matter. Management believes that recoverability of the final tax on PEACe bonds is probable.

As of December 31, 2011 and 2010, non-performing loans of the Bank amounted to P488.7 million and P315.7 million, respectively, while restructured loans amounted to P77.8 million as of December 31, 2011 (nil in 2010).

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

	2011	2010
Within one year	**P 10,626,504**	P 8,680,271
Beyond one year	**2,984,489**	2,532,946
	P 13,610,993	P 11,213,217

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

	2011	2010
Wholesale and retail trade	**P 5,173,022**	P 4,381,262
Manufacturing (various industries)	**2,642,610**	2,218,422
Real estate, renting and business activities	**1,897,755**	1,296,094
Agriculture	**279,852**	265,845
Others	**3,617,754**	3,051,594
	P 13,610,993	P 11,213,217

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

	2011	2010
Secured:		
Real estate mortgage	**P 4,196,180**	P 3,701,913
Chattel mortgage	**958,672**	998,344
Deposit hold-out	**664,099**	377,286
Others	**328,846**	383,301
Unsecured	**7,463,196**	5,752,373
	P 13,610,993	P 11,213,217

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

	Note	2011	2010
Balance at beginning of year		**P 488,658,104**	P 258,116,843
Provision for impairment losses		**50,000,000**	199,320,155
Write-off		**(47,002,069)**	-
Transfer from merged entity		**-**	37,183,452
Reclassification to investment properties	12	**-**	(5,962,346)
		P 491,656,035	P 488,658,104

Of the total loans and discounts of the Bank as of December 31, 2011 and 2010, 82.55% and 82.53%, respectively, are subject to periodic interest repricing.

Annual effective interest rates of loans and discounts range from 3.75% to 22.0% in 2011 and 1.4% to 26.0% in 2010. Total interest income earned amounted to P963.9 million and P930.7 million in 2011 and 2010, respectively, and is included as part of Interest Income on Loans and other receivables in the statements of income.

Loans receivables amounting to P0.1 billion and P1.5 billion as of December 31, 2011 and 2010, respectively, are pledged as collaterals to secure borrowings under rediscounting privileges (see Note 15).

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2011 and 2010 are shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
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**
December 31, 2010						
Cost	P 77,747,556	P 96,801,339	P 172,984,840	P 55,345,464	P123,495,003	P526,374,202
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	P320,370,895
January 1, 2010						
Cost	P 75,600,000	P 92,106,083	P 153,707,576	P 43,899,025	P120,367,662	P485,680,346
Accumulated depreciation and amortization	-	(21,246,117)	(88,588,340)	(21,165,644)	(40,742,584)	(171,742,685)
Net carrying amount	P 75,600,000	P 70,859,966	P 65,119,236	P 22,733,381	P 79,625,078	P313,937,661

A reconciliation of the carrying amounts at the beginning and end of 2011 and 2010 is shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
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 71,712,307**	**P 67,502,291**	**P 47,084,633**	**P 76,777,325**	**P 340,824,112**
Balance at January 1, 2010, net of accumulated depreciation and amortization	P 75,600,000	P 70,859,966	P 65,119,236	P 22,733,381	P 79,625,078	P 313,937,661
Net additions (disposals)	(1,510,071)	4,058,832	20,992,921	12,539,128	3,041,535	39,122,345
Transfer from merged entity	3,657,627	911,026	218,803	5	85,806	4,873,267
Depreciation and amortization charges for the year	-	(2,258,321)	(17,224,019)	(7,250,385)	(10,829,653)	(37,562,378)
Balance at December 31, 2010, 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

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, 2011, the Bank has satisfactorily complied with this requirement.

12. INVESTMENT PROPERTIES - Net

Investment properties include land and buildings held for capital appreciation.

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2011 and 2010 are shown below.

	Land	Buildings and Improvements	Total
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**

	Land	Buildings and Improvements	Total
December 31, 2010			
Cost	P 248,926,511	P 80,886,548	P 329,813,059
Accumulated depreciation	-	(23,366,623)	(23,366,623)
Allowance for impairment	(14,913,783)	(9,003,942)	(23,917,725)
Net carrying amount	P 234,012,728	P 48,515,983	P 282,528,711
January 1, 2010			
Cost	P 245,004,074	P 89,908,399	P 334,912,473
Accumulated depreciation	-	(13,855,710)	(13,855,710)
Allowance for impairment	(12,083,605)	(2,797,521)	(14,881,126)
Net carrying amount	P 232,920,469	P 73,255,168	P 306,175,637

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2011 and 2010 is shown below.

	Land	**Buildings and Improvements**	**Total**
Balance at January 1, 2011, net of accumulated depreciation and impairment	P 234,012,728	P 48,515,983	P 282,528,711
Additions	127,494,540	31,763,000	159,257,540
Disposals	(23,796,994)	(9,953,848)	(33,750,842)
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**
Balance at January 1, 2010, net of accumulated depreciation and impairment	P 232,920,469	P 73,255,168	P 306,175,637
Additions	21,586,244	3,645,225	25,231,469
Disposals	(31,843,329)	(13,577,918)	(45,421,247)
Reclassification of allowance from loans and other receivables and other resources	(365,856)	(6,206,421)	(6,572,277)
Transfer from merged entity	11,715,200	1,807,277	13,522,477
Depreciation for the year	-	(10,407,348)	(10,407,348)
Balance at December 31, 2010, net of accumulated depreciation and impairment	P 234,012,728	P 48,515,983	P 282,528,711

The fair value of investment properties as of December 31, 2011 and 2010 amounted to P468.5 million and P333.3 million, respectively, based on the latest appraised values of the investment properties at the end of each reporting period, as determined by internal or external appraisers.

Additions to investment properties include gain on foreclosure amounting to P31.4 million and P9.1 million in 2011 and 2010, respectively, which are presented as part of gain on foreclosure under Miscellaneous Income in the statements of income (see Note 18.01).

13. OTHER RESOURCES

This account consists of:

	Notes	2011	2010
Deferred tax assets - net	21	**P 159,606,709**	P 146,711,371
Due from head office or branches		**140,369,137**	150,963,246
Goodwill	1.02	**49,878,393**	49,878,393
Computer software - net		**21,393,222**	8,127,359
Branch licenses		**20,000,000**	20,000,000
Foreign currency notes and checks on hand		**18,339,274**	16,153,207
Deferred charges		**17,643,424**	17,643,424
Security deposits		**10,027,324**	9,530,436
Stationery and supplies		**6,446,612**	6,525,480
Returned checks		**2,439,797**	52,815,761
Prepaid expenses		**2,339,797**	5,498,763
Other properties - net		**484,244**	3,917,310
Receivable from Bureau of Internal Revenue (BIR)		**-**	10,756,732
Miscellaneous		**44,926,924**	26,495,999
		493,894,857	525,017,481
Allowance for impairment losses		**(17,643,424)**	(18,023,423)
		P 476,251,433	P 506,994,058

The movements of allowance for impairment losses follow:

	Note	2011	2010
Balance at beginning of year		**P 18,023,423**	P 18,633,354
Reversal of allowance for other properties sold		**(379,999)**	-
Reclassification to investment properties	12	**-**	(609,931)
		P 17,643,424	P 18,023,423

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of KRBI at the date of merger (see Note 1.02) in 2010.

Branch licenses pertain to the Bank's acquisition of the four licenses from Prime Savings Bank, Inc. for a total consideration of P20.0 million.

Deferred charges amounting to P17.6 million as of December 31, 2011 and 2010 pertain to prepaid final taxes from prior years that are fully provided with allowance since the Bank assessed that these prepaid taxes are no longer recoverable.

Receivable from BIR pertains to claims for overpayment of final taxes. In 2011, all of the said claims were utilized for the payment of Gross Receipts Taxes (GRT).

Other properties are presented net of accumulated depreciation of P3.6 million and P2.1 million in 2011 and 2010, respectively. Depreciation expense recognized in 2011 and 2010 amounted to P1.6 million and P1.1 million, respectively, presented as part of Depreciation and Amortization in the statements of income.

Additions to other properties in 2011 as a result of foreclosure amounted to P6.0 million (nil in 2010). These include gain on foreclosure amounting to P0.6 million which is presented as part of Gain on foreclosure under Miscellaneous Income in the 2011 statement of income (see Note 18.01).

14. DEPOSIT LIABILITIES

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

	2011	2010
Within one year	**P 20,935,723,448**	P16,657,132,425
Beyond one year	**259,264,669**	930,274,000
	P 21,194,988,117	P17,587,406,425

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

	2011	2010
Peso	**P 18,894,928,262**	P15,411,467,667
Foreign	**2,300,059,855**	2,175,938,758
	P 21,194,988,117	P17,587,406,425

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

Management considers the carrying amount of deposit liabilities recognized in the statements of financial position to be a reasonable approximation of their fair values.

15. BILLS PAYABLE

The maturity profile of bills payable follows:

	2011	2010
Within one year	**P 37,102,210**	P 1,110,109,520
Beyond one year	**84,380,389**	102,892,672
	P 121,482,599	P 1,213,002,192

Bills payable are denominated in peso and have interest rates ranging from 4.0% to 5.35% per annum in 2011 and 4.0% to 4.75% per annum in 2010. These are collateralized by certain loans from customers (see Note 10).

16. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Note	2011	2010
Bills purchased		**P 585,572,905**	P 636,408,389
Manager's checks		**93,368,852**	36,033,175
Accounts payable		**90,733,003**	85,175,565
Accrued expenses		**85,486,530**	57,075,798
Post-employment benefit obligation	19.02	**6,791,741**	7,032,919
Others		**33,659,302**	29,245,846
		P 895,612,333	P 850,971,692

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

Accrued expenses include accrued employee benefits, utilities, janitorial and security services fees.

17. CAPITAL FUNDS

17.01 Capital Stock

Capital stock as of December 31, 2011 and 2010 consists of:

	Shares		Amount	
	2011	2010	**2011**	2010
Preferred shares – P100 par value				
Authorized – 13,000,000 shares				
Issued and subscribed	**6,200,000**	6,200,000	**P 620,000,000**	P 620,000,000
Subscriptions receivable			**(375,000,000)**	(375,000,000)
			P 245,000,000	P 245,000,000

	Shares		Amount	
	2011	2010	**2011**	2010
Common shares – P100 par value				
Authorized – 17,000,000 shares				
Issued and outstanding	**4,200,000**	4,200,000	**P 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 P1.0 billion, divided into seven million common shares and three million preferred shares to P3.0 billion, divided into P17.0 million common shares and P13.0 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 P125.0 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 and 2010, the balance of subscription receivables that relates to the five million subscribed preferred shares amounted to P375.0 million.

As of December 31, 2011 and 2010, the Bank has seven stockholders owning 100 or more common shares each of the Bank's capital stock.

17.02 Appropriated Surplus

In 2010, the Bank reversed the appropriation on reserve for redemption of preferred shares amounting to P120.0 million back to unappropriated 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, 2011 and 2010, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

In 2011, additional appropriation of surplus amounting to P0.3 million pertains to the portion of the Bank's income from trust operations set-up in compliance with BSP regulations (see Note 23).

18. MISCELLANEOUS INCOME AND EXPENSES

18.01 Miscellaneous Income

This account is composed of the following:

	Notes	2011	2010
Gain on foreclosure - net	12, 13	**P 32,028,960**	P 9,096,006
Reversal of various accruals		**15,780,874**	12,399,686
Write-off of long outstanding payable		**11,499,716**	14,511,557
Gain on sale of properties- net		**9,199,762**	-
Trust fees		**4,102,522**	6,103,861
Foreign exchange gain - net		**442,526**	-
Others		**29,473,098**	16,699,070
		P 102,527,458	P 58,810,180

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

18.02 Miscellaneous Expenses

This account is composed of the following:

	2011	2010
Litigation	**P 27,891,414**	P 4,773,524
Supplies	**17,563,105**	8,196,508
Communication	**11,683,582**	10,969,537
Banking fees	**6,752,348**	8,884,096
Amortization of software licenses	**5,824,407**	497,957
Advertising and publicity	**3,582,540**	12,234,623
Donations and contributions	**2,081,174**	2,009,720
Membership dues	**1,272,487**	1,621,750
Loss on sale of properties - net	**-**	11,838,992
Foreign currency loss - net	**-**	975,553
Others	**35,283,744**	17,893,202
	P 111,934,801	P 79,895,462

Others include, among others, brokerage fees and commission, appraisal fees and processing fees incurred by the Bank.

19. EMPLOYEE BENEFITS

19.01 Salaries and Other Employee Benefits

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

	2011	2010
Salaries and wages	**P 145,979,695**	P120,531,440
Bonuses	**46,904,563**	38,341,736
Social security costs	**8,937,407**	7,667,071
Post-employment defined benefit plan	**6,701,781**	6,906,959
Short-term medical benefits	**607,817**	301,675
Other short-term benefits	**46,249,395**	38,037,125
	P 255,380,658	P 211,786,006

19.02 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 regularly 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 16):

	2011	2010
Present value of the obligation	**P 65,437,303**	P 37,394,689
Fair value of plan assets	**(44,927,195)**	(34,893,924)
Deficiency of plan assets	**20,510,108**	2,500,765
Unrecognized actuarial gains (losses)	**(13,718,367)**	4,532,154
	P 6,791,741	P 7,032,919

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

	2011	2010
Balance at beginning of year	**P 37,394,689**	P 29,136,959
Current service and interest cost	**9,522,320**	7,940,221
Benefits paid	**(4,456,465)**	(1,982,916)
Actuarial losses	**22,976,759**	2,300,425
Balance at end of year	**P 65,437,303**	P 37,394,689

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

	2011	2010
Balance at beginning of year	**P 34,893,924**	P 11,925,500
Contributions paid into the plan	**6,942,959**	22,144,508
Expected return on plan assets	**2,791,514**	954,040
Benefits paid	**(4,456,465)**	(1,982,916)
Actuarial gains	**4,755,263**	1,852,792
Balance at end of year	**P 44,927,195**	P 34,893,924

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

	2011	2010
Current service cost	**P 6,584,400**	P 5,609,263
Interest cost	**2,937,920**	2,330,958
Expected return on plan assets	**(2,791,514)**	(954,040)
Net actuarial gains recognized during the year	**(29,025)**	(79,222)
	P 6,701,781	P 6,906,959

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

	2011	2010
Balance at beginning of year	**P 7,032,919**	P 22,270,468
Expense recognized	**6,701,781**	6,906,959
Contributions paid into the plan	**(6,942,959)**	(22,144,508)
Balance at end of year	**P 6,791,741**	P 7,032,919

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

	2011	2010
Discount rates	**6.44%**	7.86%
Expected rate of return on plan assets	**8.00%**	8.00%
Expected rate of salary increases	**5.00%**	5.00%

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

	2011	2010	2009	2008	2007
Present value of the obligation	**P 65,437**	P 37,395	P 29,137	P 28,060	P 27,759
Fair value of the plan assets	**44,927**	34,894	11,926	11,775	14,503
Deficit in the plan	**P 20,510**	P 2,501	P 17,211	P 16,285	P 13,256

20. RELATED PARTY TRANSACTIONS

20.01 Nature of Related Party Transactions

The significant transactions of the Bank in the normal course of business with related parties are described below.

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% 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, 2011 and 2010, total loans extended to DOSRI amounted to P259.7 million and P92.6 million, respectively. As of December 31, 2011 and 2010, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

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

	2011	2010
Total outstanding DOSRI loans	**P 259,732,884**	P 92,592,169
% to total loan portfolio	**1.2%**	0.8%
% of unsecured DOSRI loans to total DOSRI loans	**3.4%**	9.8%

   The Bank has no past due DOSRI loans as of December 31, 2011 and 2010.

b. The BOD approved sales of investment properties on June 2, 2011 with a carrying value of P0.4 million for P0.25 million and, on January 28, 2010 with carrying value of P1.2 million for P4.0 million to certain officers of the Bank. There are no outstanding receivables from these DOSRI sale transactions as of December 31, 2011 and 2010.

c. The total balance of DOSRI deposits and loan inclusive of the corresponding related accrued interest included in the financial statements amounted to P3.1 billion and P2.7 billion as of December 31, 2011 and 2010, respectively.

20.02 Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel in 2011 and 2010 are summarized below.

	2011	2010
Salaries and wages	**P 35,588,847**	P 16,335,245
Bonuses	**8,781,712**	4,060,107
Social security costs	**551,540**	298,915
Short-term medical benefits	**315,470**	84,217
Others	**4,539,809**	1,458,910
	P 49,777,378	P 22,237,394

21. TAXES

21.01 Current and Deferred Taxes

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

	2011	2010
Current tax expense:		
Final tax on income at 20%, 10% and 7.5%	**P 100,614,810**	P 56,559,818
Minimum corporate income tax (MCIT) at 2%	**6,374,842**	11,394,468
Regular corporate income tax (RCIT) at 30%	**5,467,061**	999,877
	112,456,713	68,954,163
Deferred tax income relating to origination and reversal of temporary differences	**(12,895,338)**	(66,209,946)
Tax expense reported in the statements of income	**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:

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

The net deferred tax assets as of December 31, 2011 and 2010 (included as part of Other Resources account – see Note 13) relate to the following:

	Statements of Financial Position		Statements of Income	
	2011	2010	**2011**	2010
Deferred tax assets:				
Allowance for impairment losses	**P 148,184,823**	P147,285,444	**(P 899,379)**	(P 59,796,047)
Excess MCIT over RCIT	**17,769,310**	11,394,468	**(6,374,842)**	(11,394,468)
Accrued bonus and leave conversion	**13,078,830**	-	**(13,078,830)**	-
Accumulated depreciation of investment properties and other resources	**9,206,233**	7,457,141	**(1,749,092)**	(1,243,865)
Unamortized past service cost	**4,065,270**	4,464,516	**399,246**	(4,464,516)
Post-employment benefit obligation	**2,037,522**	2,109,876	**72,354**	4,571,264
Provision for contingencies	**-**	1,029,510	**1,029,510**	3,719,906
Deferred tax liability:				
Gain on initial recognition of investment properties	**(34,735,279)**	(27,029,584)	**7,705,695**	2,397,780
Net Deferred Tax Assets	**P 159,606,709**	P146,711,371		
Deferred Tax Expense (Income)			**(P 12,895,338)**	(P 66,209,946)

The Bank is subject to MCIT which is 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 Previous Year	Remaining Balance	Valid Until
2011	P 6,374,842	P -	P 6,374,842	2014
2010	11,394,468	-	11,394,468	2013
	P 17,769,310	P -	P 17,769,310	

In 2011 and 2010, the Bank opted to claim itemized deductions.

22. 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 P47.0 million and P40.7 million in 2011 and 2010, respectively, and is included as part of Occupancy account in the statements of income. As of December 31, 2011 and 2010, future minimum rental payments required by the lease contracts are as follows:

	2011	2010
Within one year	**P 40,311,242**	P 37,069,702
After one year but not more than five years	**128,913,938**	105,385,295
More than five years	**24,880,204**	31,279,490
	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.

As of December 31, 2011, 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.

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

	2011	2010
Investment management accounts	**P 1,841,713,573**	P 1,622,653,555
Outstanding letters of credit	**968,787,354**	340,984,649
Trust and other fiduciary accounts	**80,231,813**	69,867,990
Outward bills for collection	**24,905,629**	5,200,255
Unit investment trust fund	**11,551,210**	9,443,885
Late deposits/payments received	**9,853,633**	9,477,251
Items held for safekeeping	**20,805**	21,160
Items held as collateral	**5,816**	5,944
Other contingent accounts	**190,415,055**	300,849,092
	P 3,127,484,888	P 2,358,503,781

23. 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:

	2011	2010
Due from BSP	**P 704,405,700**	P 570,010,682
Due from banks	**43,711,321**	24,099,453
Loans and other receivables	**559,205,790**	621,309,519
Investment securities	**626,173,785**	486,545,776
	P 1,933,496,596	P 1,701,965,430

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 and P26.0 million as of December 31, 2011 and 2010, respectively, are deposited with BSP (see Note 9); 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, 2011, the reserve for trust functions amounted to P0.3 million and is included as part of Appropriated Surplus in the Bank's statement of changes in equity.

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

24. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2011	2010
Return on average capital		
Net profit / Average total capital accounts	**24.3%**	32.7%
Return on average resources		
Net profit / Average total resources	**3.1%**	3.5%

	2011	2010
Net interest margin		
Net interest income / Average interest earning resources	**4.8%**	5.0%
Capital to risk assets ratio		
Total capital / Risk resources	**26.5%**	22.8%

b) Secured Liabilities and Resources Pledged as Security

As of December 31, 2011 and 2010, bills payables are the only secured liabilities (see Note 15).

25. NOTES TO STATEMENT OF CASH FLOWS

The fair values of the resources transferred from KRBI considered as noncash in the 2010 statement of cash flows follow:

	Notes		
Loans and other receivables	10	P	5,008,884
Bank premises	11		4,873,267
Investment properties	12		13,522,477
Other resources			853,085
		P	24,257,713

26. 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.

26.01 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 issued on November 25, 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 2011, the Bank reported total GRT amounting to P120,068,645 shown under Taxes and Licenses account [see Note 26.01 (c)]. GRT paid during the year amounted to P95,670,835, exclusive of December 2010 GRT paid during 2011. Total GRT payable as of December 31, 2011 amounted to P24,397,810, included as part of Others under Accrued Expenses and Other Liabilities account in the 2011 statement of financial position (see Note 16).

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 2011, DST remittance thru e-DST amounted to P100,829,180, while DST on deposits for remittance amounts to P5,511,030. 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 2011 amounting to P58,337,019 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, 2011 follow:

	Note	
Gross receipts tax	26.01 (a)	P 120,068,645
Documentary stamp tax		48,003,191
Business tax		4,468,597
Real property tax		3,203,039
Miscellaneous		2,581,514
		P 178,324,986

Taxes and licenses allocated to tax exempt income and income subject to final tax and special rate totaling P47,906,430 were excluded from the itemized deductions for purposes of income tax computation [see Note 26.02(d)].

(d) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2011 are shown below.

Final	P 103,748,763
Compensation and benefits	26,711,478
Expanded	7,213,070
	P 137,673,311

(e) Deficiency Tax Assessments and Tax Cases

As of December 31, 2011, 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 transactions in 2011 which are subject to excise tax, customs duties and tariff fees.

26.02 Requirements Under RR 19-2011

On December 9, 2011, the BIR issued RR 19-2011 which prescribes the new form that will be used for income tax filing covering and starting with periods ending December 31, 2011 and onwards. This recent RR requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions, 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.

Similar to RR 15-2010, this supplementary information for the year ended December 31, 2011 is not a required part of the basic financial statements of the Bank prepared in accordance with the FRSP.

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 2011 statement of income, which are based on FRSP.

(a) Taxable Revenues

The Bank's taxable revenues for the year ended December 31, 2011 at the regular tax rate pertain to interest income amounting to P978,486,906.

(b) Deductible Costs of Services

Deductible costs of services for the year ended December 31, 2011 at the regular tax rate comprise the following:

Interest expense	P 345,610,228
Salaries and wages	130,937,180
Insurance	31,678,036
Supervision/examination fees	3,829,094
	P 512,054,538

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2011 which are subject to regular tax rate are shown below.

Trading gains	P 2,518,345
Bank commissions and service charges	63,313,620
Others	59,830,839
	P 125,662,804

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2011 subject to regular tax rate follow:

Taxes and licenses	P 130,418,556
Occupancy	103,375,432
Management and other professional fees	82,176,612
Employee benefits	61,438,239
Bad debts written-off	47,002,069
Depreciation and amortization	37,462,306
Transportation and travel	33,913,755
Litigation/asset acquired expenses	14,198,970
Office supplies	10,703,612
Representation and entertainment	9,572,370
Insurance	7,738,625
Postage	7,120,411
Advertising and publicity	2,183,334
Donations and contributions	1,268,345
Miscellaneous	25,298,998
	P 573,871,634

Punongbayan & Araullo

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

We have audited the accompanying financial statements of Philippine Business Bank, Inc. A Savings Bank, which comprise the statements of financial position as at September 30, 2012 and 2011, and the statements of income, statements of comprehensive income, statements of changes in capital funds and statements of cash flows for the nine months ended September 30, 2012 and 2011, 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 September 30, 2012 and 2011, and its financial performance and its cash flows for the periods then ended in accordance with financial reporting standards in the Philippines for banks as described in Note 2 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Benjamin P. Valdez
Partner

CPA Reg. No. 0028485
TIN 136-619-880
PTR No. 3174790, January 2, 2012, 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)

December 6, 2012

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2012	2011
RESOURCES			
CASH AND OTHER CASH ITEMS	6	P 243,337,009	P 208,574,857
DUE FROM BANGKO SENTRAL NG PILIPINAS	6	1,270,632,113	915,261,162
DUE FROM OTHER BANKS	7	1,138,679,480	301,151,484
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	8	1,832,124,935	808,138,358
AVAILABLE-FOR-SALE SECURITIES	9	3,779,666,232	5,146,062,295
LOANS AND OTHER RECEIVABLES - Net	10	19,621,168,744	15,483,455,346
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	381,713,393	328,037,318
INVESTMENT PROPERTIES - Net	12	438,379,578	384,586,364
OTHER RESOURCES - Net	13	956,565,161	398,099,695
TOTAL RESOURCES		P 29,662,266,645	P 23,973,366,879
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	14		
Demand		P 354,074,493	P 238,220,711
Savings		8,586,372,556	8,232,706,149
Time		14,065,596,064	11,258,438,272
Total Deposit Liabilities		23,006,043,113	19,729,365,132
BILLS PAYABLE	15	896,998,094	98,672,017
ACCRUED EXPENSES AND OTHER LIABILITIES	16	1,343,045,714	995,158,327
Total Liabilities		25,246,086,921	20,823,195,476
CAPITAL FUNDS	17	4,416,179,724	3,150,171,403
TOTAL LIABILITIES AND CAPITAL FUNDS		P 29,662,266,645	P 23,973,366,879

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2012	2011
INTEREST INCOME			
Loans and other receivables	10	P 911,128,558	P 762,775,859
Investment securities	8, 9	268,816,370	460,685,563
Securities purchased under reverse repurchase agreements	10	45,941,917	25,516,144
Due from Bangko Sentral ng Pilipinas and other banks	6, 7	14,225,321	12,303,312
		1,240,112,166	1,261,280,878
INTEREST EXPENSE			
Deposit liabilities	14	446,971,512	392,954,775
Bills payable and other liabilities	15	15,069,643	34,900,715
		462,041,155	427,855,490
NET INTEREST INCOME		778,071,011	833,425,388
IMPAIRMENT LOSSES	10, 12	68,262,481	38,000,000
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		709,808,530	795,425,388
OTHER INCOME			
Trading gains - net	8, 9, 10	630,237,696	383,179,635
Service charges, fees and commissions		47,394,544	49,247,784
Miscellaneous	18	85,656,744	76,712,113
		763,288,984	509,139,532
OTHER EXPENSES			
Salaries and other employee benefits	19	217,503,502	173,334,851
Taxes and licenses		161,866,932	123,326,862
Occupancy	23	108,428,149	86,761,209
Management and other professional fees		79,120,436	69,905,569
Depreciation and amortization	11, 12, 13	55,022,344	46,675,496
Transportation and travel		44,085,380	36,059,321
Insurance		38,368,791	40,077,097
Representation and entertainment		17,716,905	12,858,322
Miscellaneous	18	79,660,985	72,474,489
		801,773,424	661,473,216
PROFIT BEFORE TAX		671,324,090	643,091,704
TAX EXPENSE	21	47,222,269	93,371,409
NET PROFIT		P 624,101,821	P 549,720,295
Earnings Per Share	26		
Basic		P 148.60	P 130.89
Diluted		P 148.60	P 130.89

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(Amounts in Philippine Pesos)

	Note	2012	2011
NET PROFIT		**P 624,101,821**	P 549,720,295
OTHER COMPREHENSIVE INCOME			
Fair value gain on available-for-sale securities during the period - net	9	**128,149,169**	131,805,706
Fair value loss (gain) recycled to profit or loss	9	**(383,806,910)**	4,802,291
		(255,657,741)	136,607,997
TOTAL COMPREHENSIVE INCOME		**P 368,444,080**	P 686,328,292

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(Amounts in Philippine Pesos)

	Note	Capital Stock		Surplus		Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Total
		Preferred Stock	Common Stock	Appropriated	Unappropriated	(See Note 9)	Capital Funds
BALANCE AS OF JANUARY 1, 2012	17	P 245,000,000	P 420,000,000	P 277,564	P 2,485,562,794	P 521,895,286	P 3,672,735,644
Appropriation for trust reserves	17	-	-	441,180	(441,180)	-	-
Collection of subscription receivable	17	375,000,000	-	-	-	-	375,000,000
Total comprehensive income		-	-	-	624,101,821	(255,657,741)	368,444,080
BALANCE AS OF SEPTEMBER 30, 2012		**P 620,000,000**	**P 420,000,000**	**P 718,744**	**P 3,109,223,435**	**P 266,237,545**	**P 4,416,179,724**
BALANCE AS OF JANUARY 1, 2011	17	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	17	-	-	246,966	(246,966)	-	-
Total comprehensive income		-	-	-	549,720,295	136,607,997	686,328,292
BALANCE AS OF SEPTEMBER 30, 2011		P 245,000,000	P 420,000,000	P 246,966	P 2,288,339,564	P 196,584,873	P 3,150,171,403

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 671,324,090	P 643,091,704
Adjustments for:			
Depreciation and amortization	11, 12, 13	55,022,344	46,675,496
Impairment losses	10, 12	68,262,481	38,000,000
Loss (gain) on foreclosure - net	18	1,006,665	(29,265,107)
Gain on sale of properties - net	18	(10,723,650)	(7,135,327)
Operating profit before working capital changes		784,891,930	691,366,766
Increase in loans and other receivables		(4,824,338,528)	(335,678,669)
Increase in financial assets at fair value through profit or loss		(1,624,382,039)	(808,138,358)
Decrease (increase) in other resources		(464,623,221)	123,733,922
Increase in deposit liabilities		1,811,054,996	2,141,958,707
Increase in accrued expenses and other liabilities		453,067,367	161,882,568
Cash generated from (used in) operations		(3,864,329,495)	1,975,124,936
Cash paid for income taxes		(68,584,908)	(122,846,138)
Net Cash From (Used in) Operating Activities		(3,932,914,403)	1,852,278,798
CASH FLOWS FROM INVESTING ACTIVITIES			
Net disposals of available-for-sale securities	9	1,675,541,547	1,613,568,342
Proceeds from sale of investment and other properties	12, 13	62,030,276	25,581,352
Net acquisitions of bank premises, furniture, fixtures and equipment	11	(87,610,355)	(44,746,136)
Net Cash From Investing Activities		1,649,961,468	1,594,403,558
CASH FLOWS FROM FINANCING ACTIVITY			
Net borrowings (payments) of bills payable		775,515,495	(1,114,330,175)
Collection of subsription receivable	17	375,000,000	-
Net Cash From (Used in) Financing Activities		1,150,515,495	(1,114,330,175)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Balance Carried Forward)*		(P 1,132,437,440)	P 2,332,352,181

	Notes	2012	2011
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Balance Brought Forward)*		**(P 1,132,437,440)**	P 2,332,352,181
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
Cash and other cash items	6	**297,076,011**	243,967,572
Due from Bangko Sentral ng Pilipinas	6	**1,119,319,376**	383,659,746
Due from other banks	7	**630,690,655**	385,008,004
Securities purchased under reverse repurchase agreements	10	**2,754,000,000**	1,169,000,000
		4,801,086,042	2,181,635,322
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash and other cash items	6	**243,337,009**	208,574,857
Due from Bangko Sentral ng Pilipinas	6	**1,270,632,113**	915,261,162
Due from other banks	7	**1,138,679,480**	301,151,484
Securities purchased under reverse repurchase agreements	10	**1,016,000,000**	3,089,000,000
		P 3,668,648,602	P 4,513,987,503

Supplemental Information on Noncash Operating and Investing Activities

Transfers from loans and other receivables to investment properties as a result of foreclosures amounted to P104.0 million and P98.5 million for the nine months ended September 30, 2012 and 2011, respectively (see Note 12), while transfers from loans and other receivables to other resources for the nine months ended September 30, 2012 and 2011, are disclosed in Note 13. Amounts mentioned were exclusive of loss on foreclosure amounting to P1.0 million for the period ended September 30, 2012 and gain on foreclosure amounting to P29.3 million for the period ended September 30, 2011 (see Note 18).

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.01 Organization 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 September 30, 2012 and 2011, the Bank operates within the Philippines with 72 and 60 branches, respectively, located nationwide. For each of the periods ended September 30, 2012 and 2011, seven and five 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.

1.02 Approval of the Financial Statements

The financial statements of the Bank for the nine months ended September 30, 2012 (including the comparatives for the nine months ended September 30, 2011) were authorized for issue by the Bank President on December 6, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the periods 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 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 9) as allowed under FRSP. As of September 30, 2012 and 2011, the unamortized fair value gains related to debt securities previously reclassified from AFS securities to HTM investments amounted to P0.3 million and P0.7 million, respectively.

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

These financial statements have been prepared using the measurement bases specified by FRSP for each type of resources, liabilities, income and expenses. The measurement bases are more fully described in the accounting policies that follow.

(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.

(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 (see Note 2.13).

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*

For the nine months ended September 30, 2012, the Bank adopted PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* which is effective starting July 1, 2011. 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 amendment had no material impact on the Bank's financial statements because the Bank does not usually enter into this type of arrangement with regard to transfer of financial asset.

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

The following amended standards are mandatory for accounting periods beginning on or after July 1, 2011 but are not relevant to the Bank's financial statements:

PFRS 1 (Amendment)	:	First-Time Adoption of PFRS – Exemption for Severe Hyperinflation and Removal of Fixed Dates for First Times Adopters
PAS 12 (Amendment)	:	Income taxes – Deferred Taxes: Recovery of Underlying Assets

(c) *Effective Subsequent to September 30, 2012 but not Adopted Early*

There are new PFRS, revisions, amendments, annual improvements and interpretations 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 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 and losses on AFS securities which can be reclassified to profit or loss when specified conditions are met.

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

- 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 them.

Currently, the Bank is using the corridor approach. The unrecognized actuarial loss as of September 30, 2012 amounted to P29.6 million and the unrecognized actuarial gain as of September 30, 2011 amounted to P3.8 million. These will be retrospectively recognized as gains or losses in other comprehensive income in 2013 (see Note 19.02).

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires quantitative information about all 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 subject to enforceable master netting arrangements and similar agreements even if they are not set-off, 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 an entity's recognized financial assets and financial liabilities on the entity'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. The Bank is yet to assess the impact of this new standard.

(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 since financial assets and liabilities are presented at their gross amount unless there is a legally enforceable right to offset.

(vi) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39, *Financial Instruments: Recognition and Measurement,* in its entirety. This chapter 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.

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.

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 2.14).

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 the 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 Financial Instruments

2.04.01 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. 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, 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 entity to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Subsequent to initial recognition, 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 Securities

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 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 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 as AFS securities under PFRS, and the Bank will be prohibited from holding investments under the HTM category for the next two years after 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 (1) 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; (2) occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (3) 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 those arising from direct loans to customers, interbank loans, 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 securities under reverse repurchase agreements.

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.

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 rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.04.02 Offsetting Financial Instruments

Financial assets and liabilities are set-off and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to offset 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.

2.04.03 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: significant financial difficulty of the issuer or debtor; a breach of contract, such as a default or delinquency in interest or principal payments; it is probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or 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, it includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. 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 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 statement of income. If loans 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.

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 estimated 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 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 statement of income.

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 the statement of income.

(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 capital funds and recognized in the statement of income.

Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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

If there is objective evidence of impairment for any of the unquoted equity securities carried at cost, the amount of impairment loss is recognized. 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.

2.04.04 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 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.

2.05 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. When assets are sold, retired or otherwise disposed of, the cost and their related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

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 lives of the improvements, 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 2.14).

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

An item of bank premises, furniture, fixtures and equipment 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.

2.06 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) the fair value of neither 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 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 in profit or loss in the year of retirement or disposal.

2.07 Intangible Assets

Intangible assets include goodwill and acquired branch licenses which are accounted for under the cost model.

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 is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.14). For purposes of impairment testing, goodwill is allocated to cash-generating units (see Note 2.14) and is subsequently carried at cost less any accumulated impairment losses.

Acquired branch licenses (included as part of Other Resources) used in operations 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. The acquired branch license is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but would require an annual test for impairment (see Note 2.14). Branch licenses are subsequently carried at cost less any accumulated impairment losses.

2.08 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.

2.09 Capital Funds

Preferred and common stocks 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 as disclosed in the statement of income, less appropriated surplus.

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.

2.10 Related Party 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 exercise significant influence over the other party in making financial and operating decisions. These 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; and, (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.

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

2.11 Revenue and Expense Recognition

2.11.01 Interest Income and Expense

Interest income and expense are recognized in the statement of income for all instruments measured at amortized cost 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 the future cash flows for the purpose of measuring the impairment loss.

2.11.02 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.

2.11.03 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.

2.12 Lessee

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 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.

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.

(b) *Bank as Lessor*

Leases wherein the Bank substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Bank's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Bank's net investment outstanding in respect of the finance lease.

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.

2.13 Foreign Currency Transactions

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 such 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.

2.14 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses and other properties held for sale (classified as Other Resources) 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 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. 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.

2.15 Employee Benefits

(a) Post-employment Benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution 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 pension plan is tax-qualified, non-contributory and administered by a trustee.

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 of high quality corporate bonds 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.

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 included in current liabilities or current assets as they are normally of a short-term nature.

(b) 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 reporting period are discounted to present value.

(c) 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.

(d) 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.

2.16 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 capital funds, 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.

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 to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of income. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly to capital funds are recognized in other comprehensive income or credited directly in capital funds.

2.17 Earnings Per Share (EPS)

Basic earnings per common share is 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 is 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 September 30, 2012 and 2011, the Bank has no convertible preferred shares (see Notes 17.01 and 22).

2.18 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 not resources and income of the Bank.

2.19 Event After 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 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) 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 9), 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 9). 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 September 30, 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 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 but has not qualified to be classified under PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, as Investment Properties if the Bank intends to hold the properties for capital appreciation or for lease 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) 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) 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 2.08 and relevant disclosures are presented in Note 23.

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 9 and 10, 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 during the periods on those assets are disclosed in Notes 8 and 9, 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.

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

As of September 30, 2012, financial assets at FVTPL and AFS securities amounting to P1,832.1 million and P3,779.7 million, respectively, are the only financial assets (nil for liabilities) measured at fair value while as of September 30, 2011, financial assets at FVTPL and AFS securities amounting to P808.1 million and P5,146.1 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.

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:

	September 30, 2012	
	Cost	**Fair Value**
Financial Resources:		
Cash and other cash items	**P 243,337,009**	**P 243,337,009**
Due from BSP	**1,270,632,113**	**1,270,632,113**
Due from other banks	**1,138,679,480**	**1,138,679,480**
Loans and other receivables	**20,177,845,183**	**19,621,168,744**
Other resources	**36,749,865**	**36,749,865**
Financial Liabilities:		
Deposit liabilities	**P 23,006,043,113**	**P 23,006,043,113**
Bills payable	**896,998,094**	**896,998,094**
Accrued expenses and other liabilities	**1,309,688,862**	**1,309,688,446**

	September 30, 2011	
	Cost	Fair Value
Financial Resources:		
Cash and other cash items	P 208,574,857	P 208,574,857
Due from BSP	915,261,162	915,261,162
Due from other banks	301,151,484	301,151,484
Loans and other receivables	16,010,113,450	15,483,455,346
Other resources	41,595,670	41,595,670
Financial Liabilities:		
Deposit liabilities	P 19,729,365,132	P 19,729,365,132
Bills payable	98,672,017	98,672,017
Accrued expenses and other liabilities	945,568,468	945,568,468

(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 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) 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.

(iv) 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) 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 11 and 12, 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) 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 September 30, 2012 and 2011 is disclosed in Notes 13 and 21.

(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 2.14. 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 are discussed in Notes 12 and 13. There are no impairment losses recognized in goodwill, acquired branch licenses, bank premises, furniture, fixtures and equipment.

(g) Post-employment Benefits

The determination of the Bank's obligation and cost of post-employment is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 19.02 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 19.02.

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 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 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 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.

4.02 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 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 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 September 30, 2012 and 2011 (amounts in thousands).

	2012	2011
Individually impaired		
Wholesale and retail trade	**P 373,212**	P 384,329
Real estate, renting and construction	**268,932**	210,049
Manufacturing	**399,353**	309,020
Consumption	**33,820**	59,314
Others	**887,298**	511,319
Gross amount	**1,962,615**	1,474,031
Allowance for impairment	**(540,351)**	(515,909)
Carrying amount	**1,422,264**	958,122
Collectively impaired		
Wholesale and retail trade	**12,763**	1,751
Manufacturing	**-**	2,805
Consumption	**-**	-
Others	**17,548**	43,373
Gross amount	**30,311**	47,929
Allowance for impairment	**(7,332)**	(9,306)
Carrying amount	**22,979**	38,623
Past due but not impaired		
Carrying amount	**12,154**	144,356
Neither past due nor impaired		
Gross amount	**18,172,766**	14,343,797
Allowance for impairment	**(8,994)**	(1,443)
Carrying amount	**18,163,772**	14,342,354
Total carrying amount	**P 19,621,169**	P 15,483,455

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 P5,611.8 million and P1,138.7 million, respectively, as of September 30, 2012 and P5,954.2 million and P301.2 million, respectively, as of September 30, 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.

4.03 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.

4.03.01 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 peso) and peso-denominated balances as of September 30, 2012 and 2011 follow (amounts in thousands):

	2012		
	Foreign Currency	**Peso**	**Total**
Financial Resources:			
Cash and other cash items	P -	P 243,337	P 243,337
Due from BSP	-	1,270,632	1,270,632
Due from other banks	1,087,473	51,206	1,138,679
Financial assets at FVTPL	144,211	1,687,914	1,832,125
AFS securities	897,885	2,881,841	3,779,666
Loans and other receivables - net	316,487	19,304,682	19,621,169
Other resources	19,468	17,282	36,750
Financial Liabilities:			
Deposit liabilities	2,076,833	20,929,250	23,006,043
Bills payable	-	896,998	896,998
Accrued expenses and other liabilities	1,608	1,308,081	1,309,689

	2011					
		Foreign Currency		Peso		Total
Financial Resources:						
Cash and other cash items	P	-	P	208,575	P	208,575
Due from BSP		-		915,261		915,261
Due from other banks		254,644		46,507		301,151
Financial assets at FVTPL		482,884		325,254		808,138
AFS securities		1,632,623		3,513,439		5,146,062
Loans and other receivables - net		85,217		15,398,238		15,483,455
Other resources		27,688		13,908		41,596
Financial Liabilities:						
Deposit liabilities		2,326,489		17,402,876		19,729,365
Bills payable		-		98,672		98,672
Accrued expenses and other liabilities		7,398		938,170		945,568

4.03.02 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 Earnings at Risk (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, capital funds and off-statement of position items as of September 30, 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 243,337	P 243,337
Due from BSP	-	-	-	-	1,270,632	1,270,632
Due from other banks	-	-	-	-	1,138,679	1,138,679
Investment securities	-	-	1,844,820	3,766,971	-	5,611,791
Loans and other receivables - net	13,563,524	1,578,414	1,048,438	2,489,538	941,255	19,621,169
Other resources	-	-	-	-	36,750	36,750
Total Resources	13,563,524	1,578,414	2,893,258	6,256,509	3,630,653	27,922,358
Liabilities and Capital Funds						
Deposit liabilities	4,619,256	7,140,109	3,242,379	286,559	7,717,740	23,006,043
Bills payable	95,081	321,125	480,792	-	-	896,998
Accrued expenses and other liabilities	-	-	-	-	1,309,689	1,309,689
Total Liabilities	4,714,337	7,461,234	3,723,171	286,559	9,027,429	25,212,730
Capital Funds	-	-	-	-	4,416,180	4,416,180
Total Liabilities and Capital Funds	4,714,337	7,461,234	3,723,171	286,559	13,443,609	29,628,910
On-book Gap	8,849,187	(5,882,820)	(829,913)	5,969,950	(9,812,956)	(1,706,552)
Cumulative On-book Gap	8,849,187	2,966,367	2,136,454	8,106,404	(1,706,552)	-
Contingent Resources	-	-	-		-	
Contingent Liabilities	-	-	-	-	943,044	943,044
Off-book Gap	-	-	-	-	(943,044)	(943,044)
Net Periodic Gap	8,849,187	(5,882,820)	(829,913)	5,969,950	(10,756,000)	(2,649,596)
Cumulative Total Gap	**P 8,849,187**	**P 2,966,367**	**P 2,136,454**	**P 8,106,404**	**(P 2,649,596)**	**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 208,575	P 208,575
Due from BSP	-	-	-	-	915,261	915,261
Due from other banks	-	-		-	301,151	301,151
Investment securities	-	3,115,961	2,579,499	-	258,740	5,954,200
Loans and other receivables - net	11,633,173	1,878,410	904,938	582,703	484,231	15,483,455
Other resources	-	-	-	-	41,596	41,596
Total Resources	11,633,173	4,994,371	3,484,437	582,703	2,209,554	22,904,238
Liabilities and Capital Fund						
Deposit liabilities	2,679,375	4,927,012	5,227,383	597,508	6,298,087	19,729,365
Bills payable	98,672	-	-	-	-	98,672
Accrued expenses and other liabilities	-	-	-	-	945,568	945,568
Total Liabilities	2,778,047	4,927,012	5,227,383	597,508	7,243,655	20,773,605
Capital Funds	-	-	-	-	3,150,171	3,150,171
Total Liabilities and Capital Funds	2,778,047	4,927,012	5,227,383	597,508	10,393,826	23,923,776
On-book Gap	8,855,126	67,359	(1,742,946)	(14,805)	(8,184,272)	(1,019,538)
Cumulative On-book Gap	8,855,126	8,922,485	7,179,539	7,164,734	(1,019,538)	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	1,200,961	1,200,961
Off-book Gap	-	-	-	-	(1,200,961)	(1,200,961)
Net Periodic Gap	8,855,126	67,359	(1,742,946)	(14,805)	(9,385,233)	(2,220,499)
Cumulative Total Gap	P 8,855,126	P 8,922,485	P 7,179,539	P 7,164,734	(P 2,220,499)	P -

4.03.03 Price Risk

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs Value-at-Risk (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 September 30, 2012 and 2011.

	2012			
Term	**Yield to Maturity**	**Rate Volatility**	**VaR**	**VaR (10-day Defeasance)***
Over 3 months	--	--	P --	P --
6 months	1.32%	10.93%	34,692	109,706
1 year	1.74%	4.96%	51,553	163,025
2 years	--	--	--	--
3 years	6.16%	4.70%	1,991,015	6,296,143
4 years	4.33%	4.70%	4,372,117	13,825,848
5 years	--	--	--	-
7 years	4.97%	2.96%	6,139,247	19,414,003
10 years	--	--	--	--
20 years	5.63%	1.50%	118,887,026	375,953,787

	2011			
Term	Yield to Maturity	Rate Volatility	VaR	VaR (10-day Defeasance)*
Over 3 months	1.95%	21.40%	P 124,340	P 393,199
6 months	1.60%	10.36%	35,513	112,302
1 year	2.50%	4.89%	64,204	203,032
2 years	2.82%	2.89%	83,674	264,601
3 years	--	--	--	--
4 years	7.11%	4.43%	122,600	387,697
5 years	7.37%	3.31%	5,719,725	18,087,358
7 years	7.54%	2.52%	4,170,330	13,187,742
10 years	--	--	--	--
20 years	6.68%	1.44%	128,556,885	406,532,564

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

Stress test on the September 30, 2012 and 2011 portfolio shows the potential impact on profit and capital funds 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	P4,569,755,089	(P 544,316,917)	(P1,632,950,751)	(P 2,721,584,585)
United States (US) Dollar	1,042,036,078	(96,358,908)	(289,076,723)	(481,794,539)
Total	**P 5,611,791,167**	**(P640,675,825)**	**(P1,922,027,474)**	**(P 3,203,379,124)**

2011				
	Current	Sensitivities		
Currency	Market Value	+100 bps	+300 bps	+500 bps
Peso	P3,838,694,061	(P382,432,348)	(P1,147,297,044)	(P 1,912,161,740)
US Dollar	2,115,506,592	(223,421,897)	(670,265,691)	(1,117,109,486)
Total	P5,954,200,653	(P605,854,245)	(P1,817,562,735)	(P 3,029,271,226)

4.03.04 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 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 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.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-statement financial position items as of September 30, 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 243,337	P -	P -	P -	P 243,337
Due from BSP	1,270,632	-	-	-	1,270,632
Due from other banks	1,138,679	-	-	-	1,138,679
Investment securities	-	12,695	1,832,125	3,766,971	5,611,791
Loans and other receivables	4,265,838	4,588,905	5,542,921	5,223,505	19,621,169
Bank premises, furniture, fixtures and equipment	-	-	-	381,713	381,713
Investment properties	-	-		438,380	438,380
Other resources	597,789	-	100,853	257,924	956,566
Total Resources	7,516,275	4,601,600	7,475,899	10,068,493	29,662,267
Liabilities and Capital Funds:					
Deposit liabilities	11,361,694	2,583,878	1,080,184	7,980,287	23,006,043
Bills payable	95,225	261,116	482,534	58,123	896,998
Accrued expenses and other liabilities	423,346	789,732	100,208	29,760	1,343,046
Total Liabilities	11,880,265	3,634,726	1,662,926	8,068,170	25,246,087
Capital Funds	-	-	-	4,416,180	4,416,180
Total Liabilities and Capital Funds	11,880,265	3,634,726	1,662,926	12,484,350	29,662,267
On-book Gap	(4,363,990)	966,874	5,812,973	(2,415,857)	-
Cumulative On-book Gap	(4,363,990)	(3,397,116)	2,415,857	-	-
Contingent Resources	-	-	-	-	-
Contingent Liabilities	54,565	595,871	286,379	6,229	943,044
Off-book Gap	(54,565)	(595,871)	(286,379)	(6,229)	(943,044)
Net Periodic Gap	(4,418,555)	371,003	5,526,594	(2,422,086)	(-)
Cumulative Total Gap	**(P 4,418,555)**	**(P 4,047,552)**	**P 1,479,042**	**(P 943,044)**	**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 208,575	P -	P -	P -	P 208,575
Due from BSP	915,261	-	-	-	915,261
Due from other banks	301,151	-	-	-	301,151
Investment securities	258,741	-	818,992	4,876,467	5,954,200
Loans and other receivables	5,239,666	3,156,432	4,201,273	2,886,084	15,483,455
Bank premises, furniture, fixtures and equipment	-	-	-	328,037	328,037
Investment properties	-	-	-	384,586	384,586
Other resources	360,288	-	5,685	32,128	398,101
Total Resources *(Balance Brought Forward)*	P 7,283,68	P 3,156,432	P 5,025,950	P 8,507,302	P 23,973,366

	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 7,283,682	P 3,156,432	P 5,025,950	P 8,507,302	P 23,973,366
Liabilities and Capital Funds:					
Deposit liabilities	7,836,512	4,854,353	1,402,858	5,635,642	19,729,365
Bills payable	846	-	10,900	86,926	98,672
Accrued expenses and other liabilities	878,722	1,293	4,570	110,573	995,158
Total Liabilities	8,716,080	4,855,646	1,418,328	5,833,141	20,823,195
Capital Funds	-	-	-	3,150,171	3,150,171
Total Liabilities and Capital Funds	8,716,080	4,855,646	1,418,328	8,983,312	23,973,366
On-book Gap	(1,432,398)	(1,699,214)	3,607,622	(476,010)	-
Cumulative On-book Gap	(1,432,398)	(3,131,612)	476,010	-	-
Contingent Resources	-	-	-	-	-
Contingent Liabilities	206,382	219,379	720,476	54,724	1,200,961
Off-book Gap	(206,382)	(219,379)	(720,476)	(54,724)	(1,200,961)
Net Periodic Gap	(1,638,780)	(1,918,593)	2,887,146	(530,734)	(1,200,961)
Cumulative Total Gap	(P 1,638,780)	(P 3,557,373)	(P 670,227)	(P 1,200,961)	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 which are mostly in the form of Current Account Savings Account (CASA) deposits. 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 September 30, 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 for 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 capital funds 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 September 30, 2012 and 2011, the Bank has satisfactorily complied with the capital-to-risk assets ratio (see Note 25).

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 September 30, 2012 and 2011, the Bank has capital funds amounting to P4,416.2 million and P3,150.2 million, respectively. Hence, the Bank has complied with the foregoing capitalization requirement.

In 2012, 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 September 30, 2012.

6. CASH AND DUE FROM BSP

This account is composed of the following:

	2012	2011
Cash and other cash items	**P 243,337,009**	P 208,574,857
Due from BSP		
Mandatory reserves	**1,270,632,113**	101,000,000
Other than mandatory reserves	**-**	814,261,162
	1,270,632,113	915,261,162
	P 1,513,969,122	P 1,123,836,019

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 0.2% to 1.0% in 2012 and from 0.1% to 1.3% in 2011, except for the amounts within the required reserve as determined by the BSP. Total interest income earned amounted to P8.8 million and P10.6 million in 2012 and 2011, respectively, and is 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 reserve week 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 September 30, 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.

7. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2012	2011
Local banks	**P 854,365,200**	P 179,278,874
Foreign banks	**284,314,280**	121,872,610
	P 1,138,679,480	P 301,151,484

Interest rates on these deposits range from 0.2% to 2.8% and 0.5% to 2.6% per annum in 2012 and 2011, respectively. Total interest income earned amounted to P5.4 million and P1.7 million in 2012 and 2011, respectively, and is 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 dollar	**P 1,087,473,223**	P 254,644,978
Philippine peso	**51,206,257**	46,506,506
	P 1,138,679,480	P 301,151,484

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held for trading government securities with fair value of P1,832.1 million and P808.1 million as of September 30, 2012 and 2011, respectively. Interest rates on these investments range from 5.0% to 8.1% and 6.4% to 8.1% per annum in 2012 and 2011, respectively. Total interest income earned amounted to P73.5 million and P4.9 million in 2012 and 2011, respectively, and are included as part of Interest Income on Investment Securities in the statements of income. Related unrealized fair value gains or loss, presented as part of Trading Gains - net in the 2012 and 2011 statements of income, amounted to a gain of P29.0 million and a loss of P4.4 million, respectively. Realized trading gains, presented as part of Trading Gains – net in the 2012 and 2011 statements of income, amounted to P62.7 million and P44.2 million, respectively.

9. AVAILABLE-FOR-SALE SECURITIES

This account is mainly composed of the following:

	2012	2011
Government securities	**P 3,030,180,475**	P 4,769,923,491
Other private debt instruments	**749,485,757**	376,138,804
	P 3,779,666,232	P 5,146,062,295

As to currency, the account consists of the following:

	2012	2011
Philippine peso	**P 2,881,840,904**	P 3,513,439,678
Foreign currency	**897,825,328**	1,632,622,617
	P 3,779,666,232	P 5,146,062,295

Changes in the AFS securities are summarized below.

	2012	2011
Balance at beginning of period	**P 5,710,865,520**	P 6,623,022,640
Additions	**9,949,875,531**	7,948,197,507
Disposals	**(11,534,047,556)**	(9,571,481,511)
Fair value gains	**128,149,169**	131,805,706
Foreign currency revaluation	**(91,996,829)**	(549,383)
Amortization of discount (premium)	**(383,179,603)**	15,067,336
Balance at end of period	**P 3,779,666,232**	P 5,146,062,295

The reconciliation of unrealized fair value gains on AFS securities reported under capital funds is shown below.

	2012	2011
Balance at beginning of period	**P 521,895,286**	P 59,976,876
Changes during the period:		
Fair value losses during the period	**128,149,169**	131,805,706
Amortization of fair value gain on reclassified AFS securities	**(133,408)**	(173,774)
Realized fair value losses (gains) on AFS securities disposed during the period - net	**(383,673,502)**	4,976,065
	(255,657,741)	136,607,997
Balance at end of period	**P 266,237,545**	P 196,584,873

AFS securities earn interest of 5.0% to 9.1% and 6.3% to 11.4% per annum in 2012 and 2011, respectively. Total interest income earned amounted to P195.4 million and P455.8 million in 2012 and 2011, respectively, and is included as part of Interest Income on Investment Securities in the statements of income. Fair value gains or losses recycled to profit or loss from capital funds resulting from the sale of AFS securities amounted to a gain of P383.8 million and a loss of P5.0 million, respectively, 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 and 2011 statements of income, amounted to P154.7 million and P293.4 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 financial assets reclassified from AFS securities to HTM investments.

	2012	2011
Fair value	**P 12,366,048**	P 281,484,495
Book value	**(12,113,981)**	(280,898,063)
Fair value gain recognized in equity of the outstanding reclassed securities	**P 232,067**	P 586,432

As of September 30, 2012 and 2011, the unamortized fair value gains related to debt securities previously reclassified from AFS category to HTM investments amounted to P0.3 million and P0.5 million, 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 P0.1 million and P0.2 million in 2012 and 2011, respectively.

There is no impact to equity had the Bank not made the reclassification in 2008 since the Bank subsequently tainted from HTM investments and 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 at HTM investments until September 13, 2011, which is at least two full years from the date of the reclassification.

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 P27.9 million and P28.6 million as of September 30, 2012 and 2011, respectively, are deposited with the BSP (see Note 24).

Certain available-for-sale securities, with face value of P275.0 million and P758.0 million as of September 30, 2012 and 2011, respectively, 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 25).

10. LOANS AND OTHER RECEIVABLES - Net

Loans and other receivables consist of the following:

		2012		2011
Loans and discounts:				
Loans and discounts	P	**14,649,900,326**	P	9,399,062,886
Bills purchased		**494,019,325**		686,297,233
Customers' liabilities on acceptances, letters of credit and trust receipts		**2,520,030,958**		2,012,843,094
		17,663,950,609		12,098,203,213
Unearned discount	(	**49,283,100)**	(	59,694,789)
		17,614,667,509		12,038,508,424
Other receivables:				
Unquoted debt securities		**1,246,357,351**		624,465,319
Securities purchased under reverse repurchase agreements		**1,016,000,000**		3,089,000,000
Accrued interest receivable		**129,184,896**		129,037,491
Accounts receivable		**72,603,890**		24,514,337
Sales contracts receivable		**49,557,573**		44,650,844
Deficiency claims receivable - net		**44,251,730**		59,937,035
Other receivable		**5,222,234**		-
		20,177,845,183		16,010,113,450
Allowance for impairment losses	(	**556,676,439)**	(	526,658,104)
	P	**19,621,168,744**	P	15,483,455,346

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. The 2012 Accounts receivable include 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 probable.

As of September 30, 2012 and 2011, non-performing loans of the Bank amounted to P802.3 million and P749.0 million, respectively, while restructured loans amounted to P141.6 million and P78.0 million, respectively.

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

		2012		2011
Within one year	**P**	**14,129,583**	P	9,391,245
Beyond one year		**3,534,367**		2,706,958
	P	**17,663,950**	P	12,098,203

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 **6,643,798**	P 5,244,348
Manufacturing (various industries)	**3,449,126**	2,357,609
Service	**2,934,059**	1,426,297
Real estate, renting and other related activities	**2,269,716**	1,418,536
Agriculture	**456,821**	364,533
Others	**1,910,431**	1,286,880
	P 17,663,951	P 12,098,203

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

	2012	2011
Secured:		
Real estate mortgage	P **5,482,132**	P 3,956,940
Chattel mortgage	**1,263,977**	1,011,157
Deposit hold-out	**1,078,263**	345,708
Others	**303,535**	426,342
	8,127,907	5,740,147
Unsecured	**9,536,044**	6,358,056
	P 17,663,951	P 12,098,203

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

	2012	2011
Balance at beginning of period	P **491,676,035**	P 488,658,104
Provision for impairment losses	**65,000,404**	38,000,000
Balance at end of period	**P 556,676,439**	P 526,658,104

Of the total loans and discounts of the Bank as of September 30, 2012 and 2011, 79.5% and 73.1%, respectively, are subject to periodic interest repricing.

Annual effective interest rates of loans and discounts range from 1.4% to 22.0% in 2012 and 2011 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 and 2011, respectively. Total interest income earned from loans and discounts amounted to P860.4 million and P705.2 million in 2012 and 2011, respectively, while total interest income earned from interest-bearing other receivables amounted to P96.6 million and P83.1 million in 2012 and 2011, respectively. These are presented as Interest Income on Loans and Other Receivables and Securities Purchased Under Reverse Repurchase Agreements in the statements of income.

Loans receivables amounting to P1.1 billion and P0.10 billion as of September 30, 2012 and 2011, respectively, are pledged as collaterals to secure borrowings under rediscounting privileges (see Note 15).

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

11. 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
September 30, 2012						
Cost	P 77,747,556	P 94,015,631	P 196,206,205	P 84,011,840	P 188,352,483	P 640,333,715
Accumulated depreciation and amortization	-	(26,527,202)	(117,514,227)	(28,318,610)	(86,260,283)	(258,620,322)
Net carrying amount	**P 77,747,556**	**P 67,488,429**	**P 78,691,978**	**P 55,693,230**	**P 102,092,200**	**P 381,713,393**
January 1, 2012						
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
September 30, 2011						
Cost	P 77,747,556	P 96,877,126	P 182,090,821	P 60,783,395	P136,243,092	P 553,741,990
Accumulated depreciation and amortization	-	(24,669,670)	(113,935,898)	(22,553,979)	(64,545,125)	(225,704,672)
Net carrying amount	P 77,747,556	P 72,207,456	P 68,154,923	P 38,229,416	P 71,697,967	P 328,037,318
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)	-	(2,975,785)	28,394.424	20,029,439	42,162,277	87,610,355
Depreciation and amortization charges for the period	-	(1,248,093)	(17,204,737)	(11,420,842)	(16,847,402)	(46,721,074)
Balance at September 30, 2012, net of accumulated depreciation and amortization	**P 77,747,556**	**P 67,488,429**	**P 78,691,978**	**P 55,693,230**	**P 102,092,200**	**P 381,713,393**
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	-	261,029	13,109,820	18,627,198	12,748,090	44,746,137
Depreciation and amortization charges for the period	-	(1,625,076)	(14,061,838)	(8,419,911)	(12,972,889)	(37,079,713)
Balance at September 30, 2011, net of accumulated depreciation and amortization	P 77,747,556	P 72,207,456	P 68,154,923	P 38,229,416	P 71,697,967	P 328,037,318

The BSP requires that investment in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of September 30, 2012 and 2011, the Bank has satisfactorily complied with this requirement.

12. INVESTMENT PROPERTIES - Net

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 P0.7 million, presented as part of Others under Miscellaneous Income in the 2012 statement of income as disclosed in Note 18.01 (nil in 2011). Real estate tax on investment property amounting to P0.1 million for the year was recognized as a related expense in 2012.

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
September 30, 2012			
Cost	P 395,430,369	P 100,812,422	P 496,242,791
Accumulated depreciation	-	(30,303,412)	(30,303,412)
Allowance for impairment	(21,193,914)	(6,365,887)	(27,559,801)
Net carrying amount	**P 374,236,455**	**P 64,143,123**	**P 438,379,578**

	Land	Buildings and Improvements	Total
January 1, 2012			
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
September 30, 2011			
Cost	P 357,153,106	P 80,857,407	P 438,010,513
Accumulated depreciation	-	(29,506,425)	(29,506,425)
Allowance for impairment	(16,557,321)	(7,360,403)	(23,917,724)
Net carrying amount	P 340,595,785	P 43,990,579	P 384,586,364
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)	(9,003,942)	(23,917,724)
Net carrying amount	P 234,012,729	P 48,515,983	P 282,528,712

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	89,994,000	12,801,760	102,795,760
Disposals	(50,248,867)	(472,042)	(50,720,909)
Impairment loss for the period	(3,218,952)	(43,125)	(3,262,077)
Depreciation for the period	-	(7,826,340)	(7,826,340)
Balance at September 30, 2012, net of accumulated depreciation and impairment	**P 374,236,455**	**P 64,143,123**	**P 438,379,578**
Balance at January 1, 2011, net of accumulated depreciation and impairment	P 234,012,729	P 48,515,983	P 282,528,712
Additions	120,013,040	8,072,500	128,085,540
Disposals	(13,429,984)	(3,864,241)	(17,294,225)
Depreciation for the period	-	(8,733,663)	(8,733,662)
Balance at September 30, 2011, net of accumulated depreciation and impairment	P 340,595,785	P 43,990,579	P 384,586,364

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 411,536,460**	P 368,712,070
Building and improvements	**98,498,814**	68,434,268
	P 510,035,274	P 437,146,338

Additions to investment properties include loss on foreclosure amounting to P1.2 million as of September 30, 2012 and gain on foreclosure amounting to P28.7 million as of September 30, 2011. These are presented as part of Loss on foreclosure under Miscellaneous Expenses (see Note 18.02) in 2012 and as part of Gain on foreclosure under Miscellaneous Income (see Note 18.01) in the 2011 statement of income. In 2012 and 2011, gains on sale of investment properties amounted to P10.4 million and P7.4 million, respectively, and are presented as part of Gain on sale of properties under Miscellaneous Income in the statements of income (see Note 18.01).

13. OTHER RESOURCES

This account consists of the following as of September 30:

	Note	2012	2011
Due from head office or branches		**P 333,072,466**	P 34,940,629
Branch licenses		**246,500,000**	20,000,000
Deferred tax assets - net	21	**175,335,363**	158,490,165
Prepaid expenses		**51,543,554**	22,318,226
Goodwill		**49,878,393**	49,878,393
Foreign currency notes and coins on hand		**19,468,147**	27,688,337
Deferred charges		**17,643,424**	17,643,424
Computer software - net		**17,468,817**	16,286,937
Security deposits		**17,095,718**	13,745,333
Stationery and supplies		**6,959,485**	6,584,065
Other properties - net		**9,320**	6,978,073
Receivable from Bureau of Internal Revenue (BIR)		**-**	2,756,732
Returned checks		**-**	2,391,876
Miscellaneous		**39,233,898**	36,420,928
		974,208,585	416,123,118
Allowance for impairment losses		**(17,643,424)**	(18,023,423)
		P 956,565,161	P 398,099,695

13.01 Branch Licenses

Branch licenses as of September 30, 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.

13.02 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 excess of purchase price over the fair value of KRBI's net assets.

13.03 Others

Deferred charges amounting to P17.6 million as of September 30, 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 are presented net of accumulated depreciation of P3.2 million and P3.0 million and allowance for impairment of P0.4 million and nil as of September 30, 2012 and 2011, respectively. Depreciation expense recognized for 2012 and 2011 amounted to P0.5 million and P0.9 million, respectively and is presented as part of Depreciation and Amortization in the statements of income. Additions to other properties in 2012 and 2011, as a result of foreclosure, amounted to P1.0 million and P6.0 million, respectively. These include gain on foreclosure amounting to P0.2 million and P0.6 million which are presented as net to Loss on foreclosure under Miscellaneous Expense in 2012 and part of Gain on foreclosure under Miscellaneous Income in the 2011 statements of income (see Notes 18.01 and 18.02). In 2012, gains on sale of other properties amounted to P0.3 million while in 2011, losses on sale of other properties amounted to P0.3 million and are presented as part of Gain on sale of properties - net in the statements of income (see Note 18.01).

Receivable from BIR pertains to claims for overpayment of final taxes. By the end of 2011, all of the said claims were utilized for the payment of Gross Receipts Taxes (GRT).

14. DEPOSIT LIABILITIES

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

	2012	2011
Within one year	**P 22,782,941,714**	P 19,245,761,592
Beyond one year	**223,101,399**	483,603,540
	P 23,006,043,113	P 19,729,365,132

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

	2012	2011
Philippine peso	**P 20,929,209,985**	P 17,402,876,498
Foreign currency	**2,076,833,128**	2,326,488,634
	P 23,006,043,113	P 19,729,365,132

Interest rates on deposit liabilities range from 0.3% to 4.8% per annum in 2012 and 2011. Total interest expense incurred amounted to P447.0 million and P393.0 million in 2012 and 2011, respectively, and is included as Interest Expense on Deposit Liabilities in the statements of income.

Management considers the carrying amount of deposit liabilities recognized in the statements of financial position to be a reasonable approximation of their fair values.

As mentioned in Note 20, the Bank has deposit liabilities from DOSRI as of September 30, 2012 and 2011.

15. BILLS PAYABLE

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

	2012	2011
BSP	**P 835,836,480**	P -
Other bank	**61,161,614**	98,672,017
	P 896,998,094	P 98,672,017

The maturity profile of bills payable follows:

	2012	2011
Within one year	P 838,963,194	P 11,987,017
Beyond one year	58,034,900	86,685,000
	P 896,998,094	P 98,672,017

Bills payable are denominated in peso with interest rates ranging from 3.8% to 5.4% and 4.0% to 5.4% per annum in 2012 and 2011, respectively. Total interest expense incurred amounted to P15.1 million and P34.9 million in 2012 and 2011, respectively, and is included as part of Interest Expense on Bills Payable and Other Liabilities in the statements of income. Bulls payable are collateralized by certain loans from customers (see Note 10).

16. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Note	2012	2011
Outstanding acceptances		P 498,507,545	P 7,742,045
Bills purchased		483,452,280	675,730,188
Accrued expenses		133,077,954	148,373,631
Accounts payable		129,578,492	102,296,202
Manager's checks		77,884,482	40,508,331
Post-employment benefit obligation	19.02	12,652,890	5,657,850
Others		7,892,071	14,850,080
		P 1,343,045,714	P 995,158,327

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

Accrued expenses include accrued employee benefits, utilities, janitorial and security services fees.

17. CAPITAL FUNDS

17.01 Capital Stock

Capital stock as of September 30 consists of:

	Number of Shares		**Amount**	
	2012	2011	**2012**	2011
Preferred shares – P100 par value				
Authorized – 13,000,000 shares				
Issued and subscribed	**6,200,000**	6,200,000	**P 620,000,00**	P 620,000,000
Subscriptions receivable				
Balance at beginning of period			(375,000,000)	(375,000,000)
Collections during the year			375,000,000	-
Balance at end of year			-	(375,000,000)
Total			P 620,000,000	P 245,000,000
Common shares – P100 par value				
Authorized – 17,000,000 shares				
Issued and subscribed	**4,200,000**	4,200,000	**P420,000,000**	P420,000,000

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 seventeen million common shares and thirteen 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 September 30, 2011, the balance of subscription receivables that relates to the five million subscribed preferred shares amounted to P375.0 million (nil in 2012). The subscription receivables 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, at the option of the Bank, to common shares at par value. Subsequently, on November 27, 2012, the BOD approved to revoke the July 16, 2012 approval to change the features of preferred shares from 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 (see Note 22).

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 for stockholders on record for the calendar year ended December 31, 2011. The dividend distribution are approved by the BSP on October 17, 2012.

As of September 30, 2012 and 2011, the Bank has seven stockholders owning 100 or more common shares each of the Bank's capital stock.

17.02 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 September 30, 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 P0.4 million and P0.2 million pertain to the portion of the Bank's income from trust operations set-up in compliance with BSP regulations (see Note 24).

18. MISCELLANEOUS INCOME AND EXPENSES

18.01 Miscellaneous Income

This account is composed of the following:

	Notes	2012	2011
Consultancy fee		**P 52,353,685**	P -
Gain on sale of properties - net	12, 13	**10,723,650**	7,135,327
Trust fees	24	**4,411,800**	2,469,664
Income from write-off of long outstanding payable		**-**	11,499,716
Gain on foreclosure - net	12, 13	**-**	29,265,107
Reversal of over-accrual on banking fees		**-**	3,895,316
Others		**18,167,609**	22,446,983
		P 85,656,744	P 76,712,113

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.

18.02 Miscellaneous Expenses

This account is composed of the following:

	Notes	2012	2011
Litigation on asset aquired		**P 16,131,884**	P 12,815,938
Communication		**10,330,701**	8,696,457
Supplies		**10,217,900**	10,435,876
Advertising and publicity		**7,719,438**	2,914,870
Banking fees		**6,109,762**	6,407,663
Amortization of software licenses		**5,162,402**	4,348,765
Loss on foreclosure - net	12, 13	**1,006,665**	-
Membership dues		**968,123**	825,838
Foreign currency loss - net		**351,858**	264,287
Information technology		**189,475**	1,596,396
Donations and contributions		**140,146**	51,030
Others		**21,332,631**	24,117,369
		P 79,660,985	P 72,474,489

Others include, among others, brokerage fees and commission, appraisal fees and processing fees, incurred by the Bank.

19. EMPLOYEE BENEFITS

19.01 Salaries and Other Employee Benefits

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

	2012	2011
Salaries and wages	**P 134,051,580**	P 106,632,291
Bonuses	**46,010,408**	37,219,567
Social security costs	**7,818,347**	6,580,412
Post-employment defined benefit plan	**6,540,232**	5,239,435
Short-term medical benefits	**167,162**	377,974
Other short-term benefits	**22,915,773**	17,285,172
	P 217,503,502	P 173,334,851

19.02 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 16):

	2012	2011
Present value of the DBO	**P 90,657,126**	P 42,202,861
Fair value of plan assets	**(48,404,802)**	(40,316,055)
Deficiency of plan assets	**42,252,324**	1,886,806
Unrecognized actuarial gains (losses)	**(29,599,434)**	3,771,044
	P 12,652,890	P 5,657,850

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

	2012	2011
Balance at beginning of period	**P 65,437,303**	P 37,394,689
Actuarial losses	**17,232,569**	1,725,318
Current service and interest cost	**8,493,934**	7,362,219
Benefits paid	**(506,680)**	(4,279,365)
Balance at end of period	**P 90,657,126**	P 42,202,861

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

	2012	2011
Balance at beginning of period	**P 44,927,195**	P 34,893,924
Expected return on plan assets	**2,695,631**	2,093,635
Actuarial gains	**609,573**	993,357
Contributions paid into the plan	**679,083**	6,614,504
Benefits paid	**(506,680)**	(4,279,365)
Balance at end of period	**P 48,404,802**	P 40,316,055

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

	2012	2011
Current service cost	**P 5,185,215**	P 4,938,300
Interest cost	**3,308,719**	2,423,919
Expected return on plan assets	**(2,695,632)**	(2,093,635)
Net actuarial loss (gains) recognized during the period	**741,930**	(29,149)
	P 6,540,232	P 5,239,435

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

	2012	2011
Balance at beginning of period	**P 6,791,741**	P 7,032,919
Expense recognized	**6,540,232**	5,239,435
Contributions paid into the plan	**(679,083)**	(6,614,504)
Balance at end of period	**P 12,652,890**	P 5,657,850

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

	2012	2011
Discount rates	**5.06%**	6.48%
Expected rate of return on plan assets	**6.00%**	6.00%
Expected rate of salary increases	**5.00%**	5.00%

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

	September 30, 2012	December 31, 2011	September 30, 2011	December 31, 2010	December 31, 2009
Present value of the obligation	**P 90,657**	P 65,437	P 42,203	P 37,395	P 29,137
Fair value of the plan assets	**48,405**	44,927	40,316	34,894	11,926
Deficit in the plan	**P 42,252**	P 20,510	P 1,887	P 2,501	P 17,211

20. RELATED PARTY TRANSACTIONS

20.01 Nature of Related Party Transactions

The significant transactions of the Bank in the normal course of business with related parties are described below.

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% 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 September 30, 2012 and 2011, total loans extended to DOSRI amounted to P738.1 million and P27.2 million, respectively. As of September 30, 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 738,052,808**	P 27,182,935
% to total loan portfolio	**4.18%**	0.22%

   The Bank has no past due DOSRI loans as of September 30, 2012 and 2011. As of September 30, 2012, the Bank has approved line of credit to certain related parties totaling P719.7 million of which P207.5 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 P17.6 million and P26.4 million, as of September 30, 2012 and 2011, respectively.

   The details of outstanding DOSRI loans are as follows:

	2012	2011
Key management personnel	**P 18,339,956**	P 26,591,635
Other related parties	**719,712,852**	591,300
	P 738,052,808	P 27,182,935

b. The BOD approved sales of investment properties on May 21, 2012 with a carrying value of P0.3 million for 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 September 30, 2012 and 2011.

c. The total balance of deposit liabilities to DOSRI, inclusive of the corresponding related accrued interest, included in the financial statements amounted to P4.5 billion and P2.2 billion as of September 30, 2012 and 2011, respectively.

20.02 Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel in 2012 and 2011 are summarized below.

	2012	2011
Salaries and wages	**P 30,316,500**	P 23,352,000
Bonuses	**5,251,396**	4,087,304
Other short-term benefits	**698,000**	329,000
Social security costs	**774,675**	630,695
	P 37,040,571	P 28,398,999

21. TAXES

The components of tax expense for the period ended September 30, 2012 and 2011 follow:

	2012	2011
Current tax expense:		
Final tax on income at 20%, 10% and 7.5%	**P 54,627,585**	P 79,601,909
Regular corporate income tax (RCIT) at 30%	**8,323,338**	25,548,295
	62,950,923	105,150,204
Deferred tax income relating to origination and reversal of temporary differences	**(15,728,654)**	(11,778,795)
Tax expense reported in the statements of income	**P 47,222,269**	P 93,371,409

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
Tax on pretax profit at 30%	**P 201,397,227**	P 192,927,511
Adjustment for income subjected to lower tax rates	**(19,861,841)**	(34,602,576)
Tax effects of:		
Non-taxable income	**(200,656,988)**	(139,607,525)
Non-deductible expenses	**66,343,871**	74,653,999
Tax expense reported in the statements of income	**P 47,222,269**	P 93,371,409

As of September 30, 2012 and 2011, the Bank has unrecognized deferred tax assets amounting to P11.9 million which pertains to certain allowance of impairment losses absorbed from KRBI upon merger amounting to P39.6 million.

The Bank is subject to Minimum Corporate Income Tax (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 Period	Remaining Balance	Valid Until
2011	P 6,374,842	P 6,374,842	P -	2014
2010	11,394,468	11,394,468	-	2013
	P 17,769,310	P 17,769,310	P -	

For the nine-month periods ended September 30, 2012 and 2011, the Bank opted to continue claiming itemized deductions.

The net deferred tax assets as of September 30, 2012 and 2011 (included as part of Other Resources account – see Note 13) relate to the following:

	Statements of Financial Position		Statements of Income	
	2012	2011	**2012**	2011
Deferred tax assets:				
Allowance for impairment losses	**P 168,663,567**	P158,685,444	**(P 20,478,744)**	(P11,400,000)
Excess MCIT over RCIT	**-**	-	**17,769,310**	11,394,468
Accrued bonus and leave conversion	**18,939,234**	20,027,025	**(5,860,405)**	(20,027,026)
Accumulated depreciation of investment properties and other properties	**10,037,392**	9,747,563	**(831,159)**	(2,290,422)
Unamortized past service cost	**3,685,160**	4,557,620	**380,110**	(93,104)
Post-employment benefit obligation	**3,795,867**	1,697,355	**(1,758,345)**	412,521
Provision for contingencies	**-**	-	**-**	1,029,510
Deferred tax liability:				
Gain on initial exchange of investment properties	**(29,785,857)**	(36,224,842)	**(4,949,421)**	9,195,258
Net Deferred Tax Assets	**P 175,335,363**	P158,490,165		
Deferred Tax Income			**(P 15,728,654)**	(P 11,778,795)

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

As mentioned in Note 17.01, the Bank amended its articles of incorporation based on the resolution passed by the BOD and the stockholders in a meeting held on July 16, 2012. The amendments, among others, relating to the increase of the Bank's authorized capital stock, change in par value of common shares and preferred shares and change in the features of preferred shares making the preferred shares redeemable and convertible, at the option of the Bank, to common shares at par value.

In the same meeting, 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 twenty million common shares for all issued and outstanding common shares for stockholders on record for the calendar year ended December 31, 2011. The declaration of dividends are subsequently approved by the BSP on October 17, 2012, respectively.

On November 27, 2012, the BOD approved to revoke the July 16, 2012 approval to change the features of preferred shares from 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) was approved by the BSP and SEC on October 16, 2012 and November 16, 2012, respectively.

23. 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 P28.0 million and P22.7 million in 2012 and 2011, respectively, and are included as part of Occupancy in the statements of income.

   As of September 30, 2012 and 2011, future minimum rental payments required by the lease contracts are as follows:

	2012	2011
Within one year	**P 40,555,830**	P 41,269,604
After one year but not more than five years	**239,160,523**	136,641,413
More than five years	**25,460,146**	18,878,678
	P 305,176,499	P 196,789,695

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 September 30:

	2012	2011
Investment management accounts	**P 1,743,981,855**	P 1,935,764,507
Outstanding letters of credit	**643,087,677**	464,679,867
Trust and other fiduciary accounts	**82,471,890**	73,964,952
Unit investment trust fund	**5,570,601**	10,536,444
Late deposits/payments received	**3,503,841**	4,801,208
Other contingent accounts	**277,333,110**	695,957,520
	P 2,755,948,974	P 3,185,704,498

As of September 30, 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.

24. 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 476,000,000**	P 765,000,000
Due from banks	**27,134,507**	21,524,946
Loans and other receivables	**536,283,388**	508,155,299
Investment securities	**792,606,451**	725,585,658
	P 1,832,024,346	P 2,020,265,903

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 P27.9 million and P28.6 million as of September 30, 2012 and 2011, respectively, are deposited with the BSP (see Note 9); 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 September 30, 2012 and 2011, the reserve for trust functions amounted to P0.4 million and P0.2 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 P4.4 million and P2.5 million for the periods ended September 30, 2012 and 2011, respectively, in the statements of income (see Note 18.01).

25. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2012	2011
Return on average capital		
Net profit for the period / Average total capital accounts	**15.4%**	19.6%
Return on average resources		
Net profit for the period / Average total resources	**2.2%**	2.4%
Net interest margin		
Net interest income for the period / Average interest earning resources	**3.0%**	3.8%
Capital to risk assets ratio		
Total capital / Risk resources	**21.9%**	26.9%
Liquidity ratio		
Current assets / Current liabilities	**1.2:1**	1.0:1
Debt-to-equity ratio		
Liabilities / Equity	**5.7:1**	6.6:1
Asset-to-equity ratio		
Asset / Equity	**6.7:1**	7.6:1
Interest rate coverage ratio		
Earnings before interests and taxes / Interest expense	**2.5:1**	2.5:1

b. Secured Liabilities and Resources Pledged as Security

As of September 30, 2012 and 2011, bills payables are the only secured liabilities (see Note 15). Additionally, certain available-for-sale securities 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 9)

26. EARNINGS PER SHARE

26.1 Basic Earnings Per Share

Basic earnings per share are computed as follows:

	2012	2011
Net profit	**P 624,101,821**	P 549,720,295
Divided by the weighted average number of outstanding common shares	**4,200,000**	4,200,000
Basic earnings per share	**P 148.60**	P 130.89

26.2 Diluted Earnings Per Share

Diluted earnings per share are computed as follows:

	2012	2011
Net profit	**P 624,101,821**	P 549,720,295
Divided by the weighted average number of outstanding common shares	**4,200,000**	4,200,000
Diluted earnings per share	**P 148.60**	P 130.89