



PHILIPPINE
BUSINESSBANK
a savings bank

Making Things Happen... Today!



**Making a
difference**

2011 ANNUAL REPORT

Our Mission

The basis for the Bank's growth shall be our commitment for higher standards everyday, in everything we do in providing competitive products and services and through enthusiastic execution and teamwork in producing satisfaction – for our customers, our shareholders, our associates and our communities.

Our Vision

By making things happen today, Philippine Business Bank will help build strong business communities where people can achieve their dreams.

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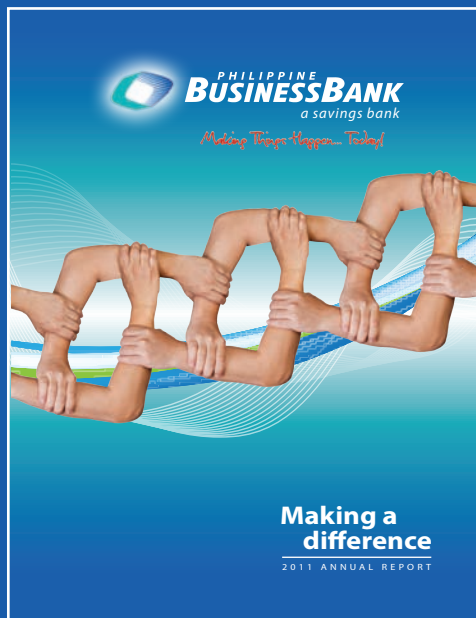
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About the Cover

These arms speak of our culture of solidarity. These arms linked and intertwined together the bridges we create, the partnerships we establish, and the relationships we build.

These arms signify how we made things happen in 2011. Every arm, every segment of Philippine Business Bank performed way above our expectations. Every arm, every sector of Philippine Business Bank contributed to our sturdy growth.

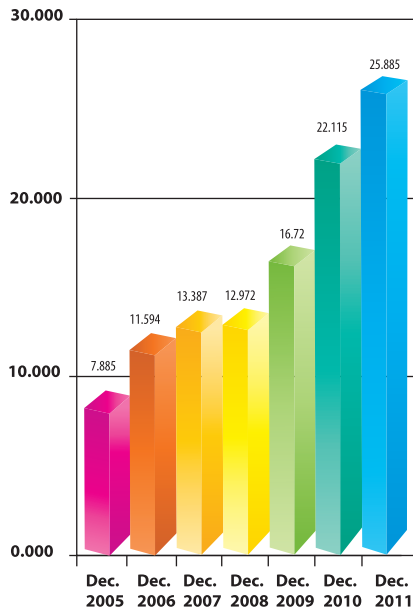
Every arm connected to one another shows where our true strength lies. These arms empower us to *Make a Difference*.



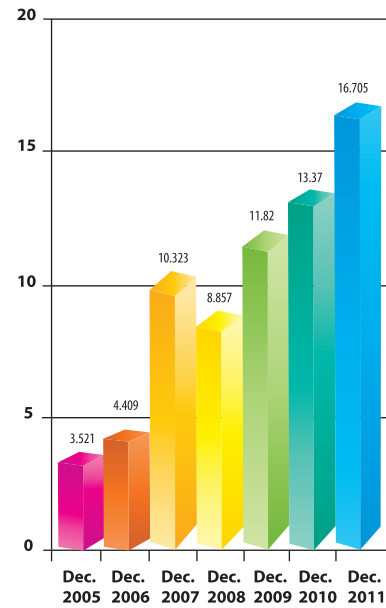
Financial Performance

from December 2005 to December 2011

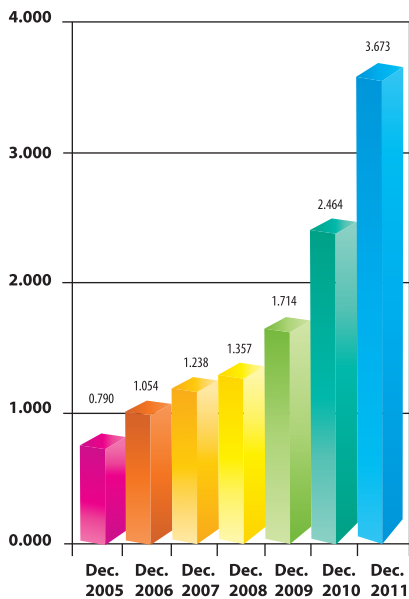
TOTAL RESOURCES
(in billion pesos)



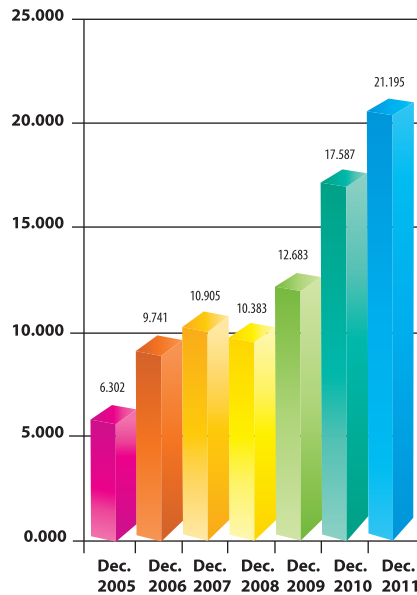
TOTAL LOANS
(in billion pesos)



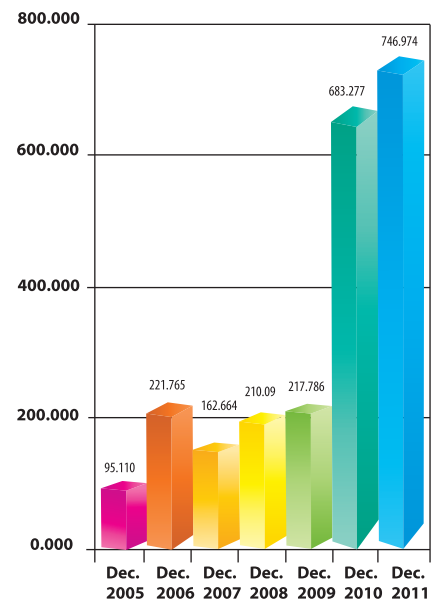
CAPITAL FUND
(in billion pesos)



TOTAL DEPOSIT
(in billion pesos)



NET INCOME
(in million pesos)



Message to the stockholders



Fiscal 2011 marked another year of great success for Philippine Business Bank. Despite a business and economic landscape in the country that remained challenging, we recorded our 14th year of sturdy growth. The Bank's flexibility and stability showed a corporate identity that reflects both our passion and commitment to make a difference in the banking industry.

We are making a difference by sustaining and improving on the gains of the past years of hard work and dedication. With a net income of P747 million, our quality performance in 2011 is attributed to good interest earnings arising from higher deposits, loan levels, investment portfolio, and noteworthy contribution from trading business and fee-based incomes. The year may have started slow, in consonance with the pace of the national economy, but financial market condition picked up and we ended up exceeding our targets and expectations. With the Bank's loan portfolio, a significant growth of 25% to P16.705 billion in 2011 was registered. PBB also posted a 20% increase in its total deposits amounting to P21.195 billion. With PBB's track record of sustaining shareholder value, the bank posted 49% growth in equity as of December 31, 2011, amounting to P 3.673 billion compared to P 2.464 billion in 2010. Our total resources grew from P22.115B (2010) to P25.885B in 2011. "With risk-based Capital Adequacy Ratio (RBCAR) of 26.5%, way above the BSP threshold, we are strongly positioned to cope with future growth."

We are making a difference through calculated management decisions and a very thorough risk management process. Formulation and execution of our business strategies were vital to the success of attaining our goals and the results for the year. The commitment of our 637 employees also contributed much and allowed the bank to be competitive and also give better customer service. In 2011, our financial and operational performance extended our brand of value-added services to our existing and new depositors. We delivered a loud and clear message to them and to everybody else -- we are a savings bank working harder like a commercial bank.

We are making a difference by involving all segments to our mission. In 2011, branches expanded market base with new depositors, account management intensified loan growth through new and existing borrowing accounts, Treasury's business in fixed-income trading also delivered sizeable revenues. But the biggest contribution really came from our people, our most valuable asset in the organization. Consider our bank officers' all-out delivery of quality service to our clients and doubling efforts on account acquisition. Consider our sales team marketing our bank well to yield higher deposits and loan accounts. Consider our front liners in the branches setting their hearts on maintaining an unrivalled service for customers.



Consider our managers showing utmost flexibility to build stronger relationships with our customers, everything with most personalized touch and highest degree of professionalism. Consider everybody else in the organization, including security guards and maintenance, possessing and practicing that sense of ownership, sense of dignity, sense of integrity in banking. In all our branches, in all segments --- everyone took part of our sustaining growth. Everybody made a difference.

We are making a difference by widening our presence felt across the country. A total of 65 branches in 2011; we are building more in the nearest future not just to hit the mark of 100 branches but to reach more people, more business partners as we can. We will continue to go where small and medium enterprises thrive. SMEs remain our focus as we increase our market base. Banking has always been the backbone of the economy and we position Philippine Business Bank as SMEs' driving force. We are making a difference in nation-building through our unwavering commitment in becoming business partners of SMEs.

We are making a difference in local and global arenas. As we build more branches, we are also extending our assistance to local communities where we operate. Through AMY Foundation, PBB has built a human network in 2011. We have systematically involved our people in our corporate social responsibility, specifically in improving education. Another area of passion is our green vision and strategy in environmental sustainability. In 2011, our technology innovation for SWIFT (Society for Worldwide Interbank Financial Transfers) transactions that minimize energy consumption and heat generating computer equipment was recognized at the Asian Banking & Finance Retail Banking Awards. The same technology was honored at 2011 Financial Insights Innovation Awards (FIIA) where Philippine Business Bank was the only savings bank from the Philippines cited.

We are making a difference because of the full support and inspiration our shareholders and the trust our customers have placed in Philippine Business Bank. The executive team, led by our new President and Chief Executive Officer Rolando R. Avante, will always be grateful to the Board of Directors, to the management, to the committees and staff for the support that put us on the right track in 2011. As we move forward, we are creating a culture of solidarity among us in achieving more our goals.

We have made a difference in 2011 and we are making more things to happen...today.

MR. ALFREDO M. YAO
Chairman Emeritus

MR. FRANCIS T. LEE
Chairman



Operational Highlights



Peter N. Yap

"We are making a difference by involving all segments to our mission... the biggest contribution really came from our people, our most valuable asset in the organization, possessing and practicing that sense of ownership, sense of dignity, sense of integrity in banking."



Rolando R. Avante

Philippine Business Bank Awarded during the Banking & Finance Retail Banking Awards 2011

Philippine Business Bank (PBB) successfully bagged the Bronze Award for the Best Environment Initiative Category in the recently concluded Asian Banking & Finance Retail Banking Awards held on 20th of July 2011 at the Shangri La Hotel, Singapore. This is in recognition of the technology innovation implemented by PBB for its SWIFT transactions that minimize energy consumption and heat generating computer equipment for a greener IT environment while maintaining effectiveness and delivery of services to its customers.

The nominations were screened by the top partners of the different firms in Asia. The judges looked at the nominees' strategy and on what makes it different from the others in terms of its innovation, effectiveness and dynamism.

PBB was one of the banks that was recognized among the many entries sent by some of the leading banking institutions in Asia that joined the prestigious retail banking awards.

Since 2007, Asian Banking & Finance Magazine, the leading media in the region for retail banking has recognized the best performances among the regions' banks through its Retail Banking Awards. The five strong judging panel including representatives from the Big 4 advisory firms; KPMG, PwC, Ernst & Young and Deloitte Consulting make these awards the most critically judged and important for the banks in the region, and winning an award is a testament to excellent work done by the bank.



PBB names Avante as its new President

On the heels of an aggressive nationwide branch banking expansion program, the Board of Directors of Philippine Business Bank (PBB) has appointed professional banker Rolando R. Avante as the new President and Chief Executive Officer of this fast-growing savings bank.

Avante brings with him more than 30 years of experience in treasury and operations with various local and multinational commercial banks where he served as Executive Vice President and Treasurer.

Holder of a marketing management degree from the De La Salle University, Avante also earned post-graduate units at the DLSU Business School and continues to specialize in various industry-oriented learning institutions.

Avante likewise holds a key position in the Money Market Association of the Phils. (MART) where he is a director and president of the ACI Philippines, apart from being a member of the open-market committee of the Bankers Association of the Phils. (BAP) and a member of the Financial Executives Institute of the Phils. (FINEX).

Operational Highlights



PBB now does global transactions more swiftly

A recent inclusion to the Society for Worldwide Interbank Financial Transfers (S.W.I.F.T.) gives Philippine Business Bank (PBB) access and authority to send and receive authenticated messages such as foreign Letters of Credit, Telegraphic Transfers, Treasury transactions and other financial messages from the local and international counter parties with which the Bank has established its Relationship Management Application (RMA, formerly known as Bilateral Key Exchange-BKE).

This approval from Bangko Sentral ng Pilipinas (BSP) will allow PBB to process trade transactions in behalf of its clientele faster. Furthermore, inclusion to this Society opens the door for PBB towards global recognition, being the first savings bank in the Philippines to have the Authority from BSP to indulge in foreign trade transactions.

Said S.W.I.F.T. Membership is in consonance with the authority granted by BSP to PBB to issue foreign Letters of Credit and Pay/Accept/Negotiate Import/Export Drafts/Bills of Exchange as provided under Republic Act nos. 8791, 7906 and Manual of Regulations for Bank.

S.W.I.F.T is a worldwide financial messaging network which engages in the exchange of messages between member banks and financial institutions.

PBB's ATM Card - The Business Card- Access thru Bancnet Online

Philippine Business Bank's ATM Card---the BUSINESS CARD--- goes high tech with its inclusion in the Bancnetonline system. Card owners with internet facility could now access their accounts via Bancnetonline system and choose from the different available transactions such as Balance Inquiry, intra account fund transfer, interbank fund transfer and bills payment. The Business Card can also be used to shop on-line by logging-in on the website of Bancnet affiliated/participating e-shops.



PBB made it to the top 40 at the FIIA 2011

Another laurel was added to Philippine Business Bank (PBB) as it was one of the banks noted for its technology initiatives in the Asia/Pacific Region during the Asian Financial Services Congress's Financial Insights Innovation Awards (FIIA) 2011 held at the Marina Bay Sands, Singapore last February 24-25, 2011. PBB's Information and Technology Center (ITC) and International Banking Group (IBG) submitted an entry to the FIIA in the implementation of its Society for Worldwide Interbank Financial Transfers (S.W.I.F.T.) on SaaS. After a rigorous evaluation and criteria scoring process by the IDC Financial Insights analyst team and the FIIA

2011 Assessment Panel, consisting of international independent judges, PBB's entry was among the top 40 initiatives selected out of over 158 high-quality initiatives that qualified for the FIIA 2011. Philippine banks that made it to the Top 40 were: Philippine Business Bank and four top commercial banks. While none of the Philippine banks made it to the top 15 banks which were awarded - being selected into the top 40 only shows that PBB's technology initiatives to serve its client's needs has started to exceed the level of not just its peer banks and commercial banks but foreign banks as well.

The Board of Directors



ALFREDO M. YAO
Chairman Emeritus



FRANCIS T. LEE
Chairman



PETER N. YAP
Vice Chairman & COO



ROLANDO R. AVANTE
President & CEO



PATERNO H. DIZON



HONORIO O REYES-LAO



ROBERTO A. ATENDIDO



JEFFREY S. YAO



AMADOR T. VALLEJOS



DR. LETICIA M. YAO

Our Committees

Management Committee

Standing:

Roberto S. Santos
Raymond T. Co
Felipe V. Friginal
Peter N. Yap
Rolando R. Avante
Keith S. Chan
Joselito D. De Rivera
Joseph Edwin S. Cabalde

Sitting:

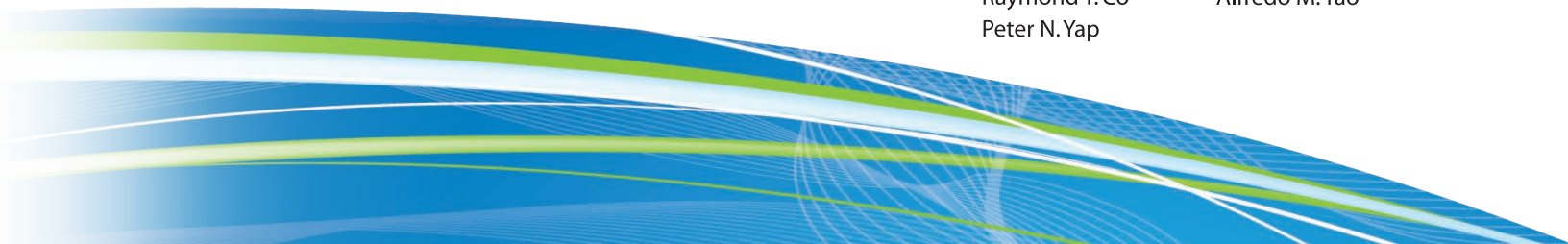
Miami V. Torres
Alice P. Rodil
Conсорcia G. Lagunzad



Executive Committee

Alice P. Rodil
Felipe V. Friginal
Raymond T. Co
Peter N. Yap

Rolando R. Avante
Francis T. Lee
Alfredo M. Yao





Management Committee

Standing:

Laurence R. Rapanut
Roselle M. Baltazar
Liza Jane T. Yao
Amelita H. Carrillo
Catherine Dujunco
Ma. Doris G. De Chavez
Luningning T. Ramos

Sitting:

Jerry C. Lucas
Manuel C. Valdez

Trust Committee

Honorio O. Reyes-Lao
Rolando R. Avante
Dr. Leticia M. Yao
Francis T. Lee



Asset & Liability Committee

Standing:

Raymond T. Co
Peter N. Yap
Felipe V. Friginal
Francis T. Lee
Joseph Edwin S. Cabalde

Sitting:

Conсорcia G. Lagunzad
Liza Jane T. Yao
Alice P. Rodil
Joselito D. De Rivera
Rolando R. Avante

Our Committees

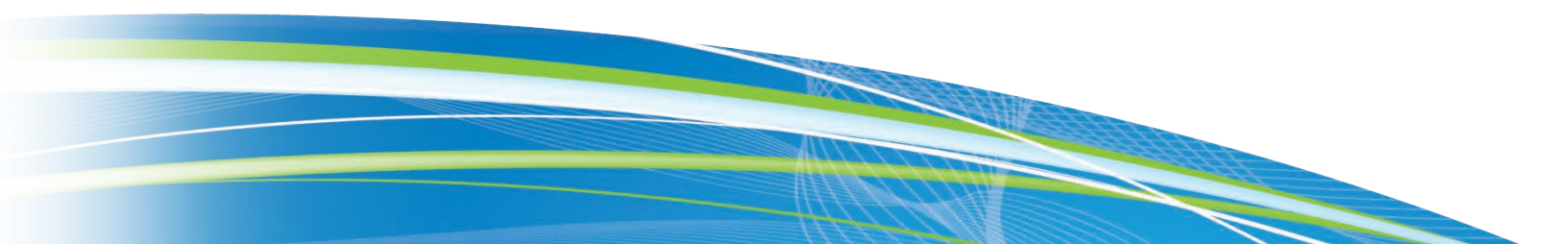
Audit Committee

Amador T. Vallejos, Jr.
Jeffrey S. Yao
Roberto A. Atendido
Laurence R. Rapanut
Paterno H. Dizon



Risk Management Committee

Jeffrey S. Yao
Roberto A. Atendido
Honorio O. Reyes- Lao
Amador T. Vallejos, Jr.
Paterno H. Dizon
Amelita Carillo





Credit Committee

Rolando R. Avante
Francis T. Lee
Peter N. Yap
Jeffrey S. Yao
Miami V. Torres



Corporate Governance Committee / Nomination Committee

Roberto A. Atendido
Amador T. Vallejos, Jr.
Paterno H. Dizon

IT Committee

Standing:
Raymond T. Co
Roselle M. Baltazar
Felipe V. Friginal
Jerry C. Lucas
Alice P. Rodil
Luningning T. Ramos
Sitting:
Peter N. Yap
Amador T. Vallejos, Jr.
Keith S. Chan



Products and Services



Deposit Products:

- Savings Account
- Checking Account
- Automatic Transfer Account (ATA)
- Payroll Account
- Campus Savers (Kiddie Account)
- Time Deposit (Regular & 5-year TD)
- FCDU (SA & TD)
- Hi-Green Fund

Commercial, Industrial and Developmental Loans

- Bills Purchase
- Term Loan
- Omnibus Line
- Discounting Line
- Trade Finance
- Agricultural Loans
- Specialized Lending Facilities for SMEs
- BSP Rediscounting Facility
- Floor Stock / Inventory Financing



Treasury & Trust Products and Services

- PBB Diamond Fund – a UITF
- Living Trust
- Employee Benefit Plans Under Trust
- Trustee of Pre-Need Plans
- Escrow Agency
- Custodianship, Safekeeping & Depository
- Mortgage Trust
- Investment Management Arrangement / Personal or Corporate
- Individual FCDU Trust
- Dollar and Peso Bonds

Loan Products:

- Auto Loan / Bus Loan
- Housing Loan
- Contract to Sell (CTS) Financing Facilities



Corporate Social Responsibility



A.M.Y FOUNDATION (our social arm)

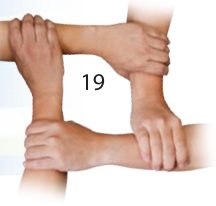
Upliftment • Development • Advancement of street children through education

Philippine Business Bank believes that its business decisions and activities impact strongly on society, the environment and its own prosperity.

For the SY 2010-2011, the Foundation supported 68 scholars enrolled in various courses. To date, 57 scholars already graduated under the Foundation Scholarship Program.

“EDUCATION is not a privilege reserved only for those who can afford it, but an inalienable right to every human born on this planet.”

- ALFREDO M. YAO



Financial Statements

- Management Responsibility for Financial Statements
- Report of Independent Auditor
- Statement for Financial Position
- Statement of Income
- Statement of Comprehensive Income
- Statements of Changes in Capital Funds
- Statements of Cash Flows
- Notes to Financial Statements

Management Responsibility for Financial Statements

The management of **Philippine Business Bank, Inc. A Savings Bank (the Bank)**, is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010, in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information filed separately from the basic financial statements:

- a. Reconciliation of Retained Earnings Available for Dividend Declaration, and
- b. Schedule of PFRS Effective as of December 31, 2011

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

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

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



FRANCIS T. LEE
Chairman of the Board



ROLANDO R. AVANTI
President & Chief Executive Officer



ALICE P. RODIL
SVP - Controller

Signed this _____ day of _____



Report of Independent Auditors

The Board of Directors
Philippine Business Bank, Inc. A Savings Bank
350 Rural Avenue Extension corner 8th Avenue
Grace Park, Calooran 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, 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

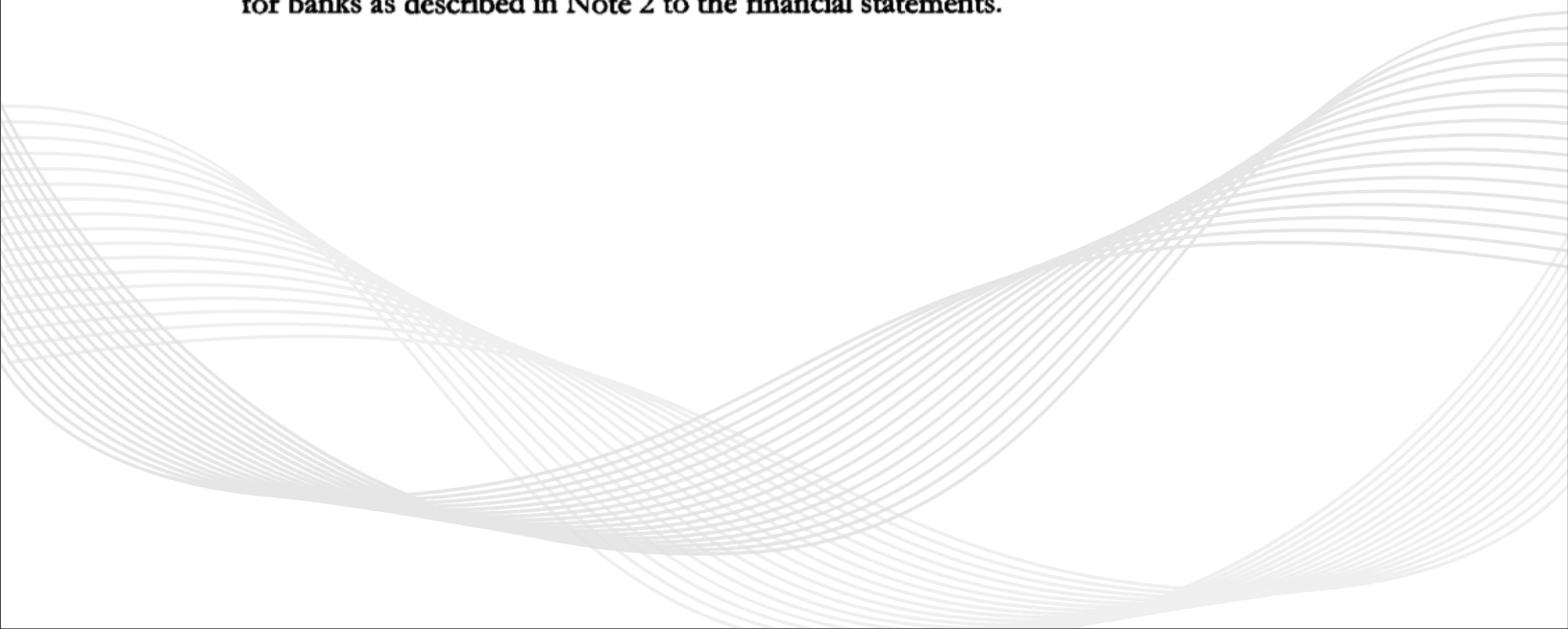
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about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

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
<u>RESOURCES</u>			
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	<u>476,251,433</u>	<u>506,994,058</u>
TOTAL RESOURCES		<u>P 25,884,818,692</u>	<u>P 22,115,223,420</u>
<u>LIABILITIES AND CAPITAL FUNDS</u>			
DEPOSIT LIABILITIES	14		
Demand		P 318,440,285	P 403,363,157
Savings		8,733,282,429	8,870,638,774
Time		<u>12,143,265,403</u>	<u>8,313,404,494</u>
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	<u>895,612,333</u>	<u>850,971,692</u>
Total Liabilities		22,212,083,049	19,651,380,309
CAPITAL FUNDS	17	<u>3,672,735,643</u>	<u>2,463,843,111</u>
TOTAL LIABILITIES AND CAPITAL FUNDS		<u>P 25,884,818,692</u>	<u>P 22,115,223,420</u>

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	<u>2011</u>	<u>2010</u>
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
		<u>1,657,971,509</u>	<u>1,358,842,305</u>
INTEREST EXPENSE			
Deposit liabilities	14	536,224,396	400,269,297
Bills payable and other liabilities	15	36,235,312	48,625,871
		<u>572,459,708</u>	<u>448,895,168</u>
NET INTEREST INCOME		1,085,511,801	909,947,137
IMPAIRMENT LOSSES	10	<u>50,000,000</u>	<u>199,320,155</u>
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		<u>1,035,511,801</u>	<u>710,626,982</u>
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
		<u>762,951,358</u>	<u>780,717,116</u>
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
		<u>951,927,662</u>	<u>805,322,804</u>
PROFIT BEFORE TAX		846,535,497	686,021,294
TAX EXPENSE	21	<u>99,561,375</u>	<u>2,744,217</u>
NET PROFIT		<u>P 746,974,122</u>	<u>P 683,277,077</u>

See Notes to Financial Statements.

Statements of changes in Capital Funds
For the Years Ended December 31, 2011 and 2010
(Amounts in Philippine Peso)

	<u>Note</u>	<u>Capital Stock</u>	
		<u>Preferred Stock</u>	<u>Common Stock</u>
BALANCE AS OF JANUARY 1, 2011	17	P 245,000,000	P 420,000,000
Appropriation for trust reserves	17	-	-
Total comprehensive income		<u>-</u>	<u>-</u>
BALANCE AS OF DECEMBER 31, 2011		<u>P 245,000,000</u>	<u>P 420,000,000</u>
BALANCE AS OF JANUARY 1, 2010	17	P 245,000,000	P 420,000,000
Reversal of appropriation	17	-	-
Total comprehensive income		<u>-</u>	<u>-</u>
BALANCE AS OF DECEMBER 31, 2010		<u>P 245,000,000</u>	<u>P 420,000,000</u>

<u>Surplus</u>		<u>Unrealized Fair Value Gains (Losses) on Available-for-sale Securities</u>	<u>Total Capital Funds</u>
<u>Appropriated</u>	<u>Unappropriated</u>		
P -	P 1,738,866,235	P 59,976,876	P 2,463,843,111
277,564	(277,564)	-	-
<u>-</u>	<u>746,974,122</u>	<u>461,918,410</u>	<u>1,208,892,532</u>
<u>P 277,564</u>	<u>P 2,485,562,793</u>	<u>P 521,895,286</u>	<u>P 3,672,735,643</u>
P 120,000,000	P 935,589,158	(P 6,092,748)	P 1,714,496,410
(120,000,000)	120,000,000	-	-
<u>-</u>	<u>683,277,077</u>	<u>66,069,624</u>	<u>749,346,701</u>
<u>P -</u>	<u>P 1,738,866,235</u>	<u>P 59,976,876</u>	<u>P 2,463,843,111</u>

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		<u>2,361,166,053</u>	<u>4,308,600,729</u>
 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		<u>1,349,804,260</u>	(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 <i>(Balance Carried Forward)</i>			
		P 2,619,450,720	P 961,262,623
	Notes	2011	2010
 NET INCREASE IN CASH AND CASH EQUIVALENTS <i>(Balance Brought Forward)</i>			
		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
		<u>2,181,635,322</u>	<u>1,220,372,699</u>
 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 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
<i>Financial Resources:</i>		
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
<i>Financial Liabilities:</i>		
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
<i>Financial Resources:</i>		
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
<i>Financial Liabilities:</i>		
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).

	<u>2011</u>	<u>2010</u>
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	<u>1,066,372</u>	<u>696,031</u>
Gross amount	2,455,796	2,155,040
Allowance for impairment	(449,295)	(440,645)
Carrying amount	<u>2,006,501</u>	<u>1,714,395</u>
Collectively impaired		
Wholesale and retail trade	6,721	59,907
Consumption	-	36,183
Others	<u>18,130</u>	<u>156,611</u>
Gross amount	24,851	252,701
Allowance for impairment	(5,759)	(48,013)
Carrying amount	<u>19,092</u>	<u>204,688</u>
<i>Balance Carried Forward</i>	P 2,025,593	P 1,919,083

	<u>2011</u>	<u>2010</u>
<i>Balance Brought Forward</i>	P 2,025,593	P 1,919,083
Past due but not impaired		
Carrying amount	<u>22,570</u>	<u>49,410</u>
Neither past due nor impaired		
Carrying amount	<u>14,656,493</u>	<u>11,401,179</u>
Total carrying amount	<u>P 16,704,656</u>	<u>P 13,369,672</u>

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
<i>Financial Resources:</i>			
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
<i>Financial Liabilities:</i>			
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
<i>Financial Resources:</i>			
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
<i>Financial Liabilities:</i>			
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					Total
	<u>Less than One Month</u>	<u>One to Three Months</u>	<u>Three Months to One Year</u>	<u>More than One Year</u>	<u>Non-rate Sensitive</u>	
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	<u>12,498,615</u>	<u>1,265,648</u>	<u>855,288</u>	<u>7,636,876</u>	<u>2,442,291</u>	<u>24,698,718</u>
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	<u>2,710,215</u>	<u>8,037,656</u>	<u>3,269,641</u>	<u>197,135</u>	<u>11,658,218</u>	<u>25,872,865</u>
On-book Gap	<u>9,788,400</u>	<u>(6,772,008)</u>	<u>(2,414,353)</u>	<u>7,439,741</u>	<u>(9,215,927)</u>	<u>(1,174,147)</u>
Cumulative On-book Gap	<u>9,788,400</u>	<u>3,016,392</u>	<u>602,039</u>	<u>8,041,780</u>	<u>(1,174,147)</u>	<u>(2,348,294)</u>
Contingent Resources	<u>783,716</u>	<u>-</u>	<u>-</u>	<u>1,148,325</u>	<u>-</u>	<u>1,932,041</u>
Contingent Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,193,989</u>	<u>1,193,989</u>
Off-book Gap	<u>783,716</u>	<u>-</u>	<u>-</u>	<u>1,148,325</u>	<u>(1,193,989)</u>	<u>738,052</u>
Net Periodic Gap	<u>10,572,116</u>	<u>(6,772,008)</u>	<u>(2,414,353)</u>	<u>8,588,066</u>	<u>(10,409,916)</u>	<u>(436,095)</u>
Cumulative Total Gap	<u>P 10,572,116</u>	<u>P 3,800,108</u>	<u>P 1,385,755</u>	<u>P 9,973,821</u>	<u>(P 436,095)</u>	<u>P -</u>

	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.

<u>Term</u>	<u>2011</u>		<u>VaR</u>	<u>VaR (10-day Defeasance)</u>
	<u>Yield to Maturity</u>	<u>Rate Volatility</u>		
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
<u>Term</u>	<u>2010</u>		<u>VaR</u>	<u>VaR (10-day Defeasance)</u>
	<u>Yield to Maturity</u>	<u>Rate Volatility</u>		
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		
Currency	Current Market Value	Sensitivities		
		+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	<u>1,963,282,179</u>	<u>(180,754,563)</u>	<u>(542,263,688)</u>	<u>(903,772,813)</u>
Total	<u>P5,918,608,416</u>	<u>(P638,817,316)</u>	<u>(P 1,916,451,946)</u>	<u>(P 3,194,086,577)</u>

		2010		
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	<u>1,918,845,131</u>	<u>(160,632,837)</u>	<u>(481,898,510)</u>	<u>(803,164,183)</u>
Total	<u>P6,623,022,640</u>	<u>(P637,119,579)</u>	<u>(P1,911,358,735)</u>	<u>(P 3,185,597,891)</u>

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	<u>213,535</u>	<u>-</u>	<u>84,428</u>	<u>178,288</u>	<u>476,251</u>
Total Resources	<u>8,224,749</u>	<u>3,897,324</u>	<u>3,247,039</u>	<u>10,515,707</u>	<u>25,884,819</u>
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	<u>827,023</u>	<u>2,970</u>	<u>60,460</u>	<u>5,159</u>	<u>895,612</u>
Total Liabilities	<u>P 15,069,969</u>	<u>P 4,994,660</u>	<u>P 1,862,814</u>	<u>P 284,640</u>	<u>P 22,212,083</u>
Capital Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,672,736</u>	<u>3,672,736</u>
Total Liabilities and Capital Funds	<u>15,069,969</u>	<u>4,994,660</u>	<u>1,862,814</u>	<u>3,957,376</u>	<u>25,884,819</u>
On-book Gap	(<u>6,845,220</u>)	(<u>1,097,336</u>)	<u>1,384,225</u>	<u>6,558,331</u>	<u>-</u>
Cumulative On-book Gap	(<u>6,845,220</u>)	(<u>7,942,556</u>)	(<u>6,558,331</u>)	<u>-</u>	<u>-</u>
Contingent Resources	783,716	-	-	1,148,325	1,932,041
Contingent Liabilities	<u>137,228</u>	<u>399,777</u>	<u>637,417</u>	<u>19,567</u>	<u>1,193,989</u>
Off-book Gap	<u>646,488</u>	(<u>399,777</u>)	(<u>637,417</u>)	<u>1,128,758</u>	<u>738,052</u>
Net Periodic Gap	(<u>6,198,732</u>)	(<u>1,497,113</u>)	<u>746,808</u>	<u>7,687,089</u>	<u>738,052</u>
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	<u>68,990</u>	<u>-</u>	<u>174,369</u>	<u>263,635</u>	<u>506,994</u>
Total Resources	<u>P 6,447,472</u>	<u>P 2,766,987</u>	<u>P 2,723,881</u>	<u>P 10,176,884</u>	<u>P 22,115,224</u>
(Balance Carried Forward)	<u>P 6,447,472</u>	<u>P 2,766,987</u>	<u>P 2,723,881</u>	<u>P 10,176,884</u>	<u>P 22,115,224</u>

	2010				Total
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	
Total Resources <i>(Balance Brought Forward)</i>	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	<u>672,441</u>	<u>83,653</u>	<u>92,547</u>	<u>2,331</u>	<u>850,972</u>
Total Liabilities	<u>13,173,093</u>	<u>3,006,414</u>	<u>2,436,376</u>	<u>1,035,498</u>	<u>19,651,381</u>
Capital Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,463,843</u>	<u>2,463,843</u>
Total Liabilities and Capital Funds	<u>13,173,093</u>	<u>3,006,414</u>	<u>2,436,376</u>	<u>3,499,341</u>	<u>22,115,224</u>
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	<u>175,254</u>	<u>264,314</u>	<u>271,218</u>	<u>801</u>	<u>711,587</u>
Off-book Gap	<u>249,651</u>	(264,314)	(261,718)	<u>2,282,350</u>	<u>2,005,969</u>
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:

	<u>2011</u>	<u>2010</u>
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	<u>751,319,376</u>	<u>326,659,746</u>
	<u>1,119,319,376</u>	<u>383,659,746</u>
	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:

	<u>2011</u>	<u>2010</u>
Local banks	P 482,974,569	P 331,182,097
Foreign banks	<u>147,716,086</u>	<u>53,825,907</u>
	<u>P 630,690,655</u>	<u>P 385,008,004</u>

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:

	<u>2011</u>	<u>2010</u>
US dollar	P 539,250,928	P 63,513,654
Peso	<u>91,439,727</u>	<u>321,494,350</u>
	<u>P 630,690,655</u>	<u>P 385,008,004</u>

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:

	<u>2011</u>	<u>2010</u>
Government securities	P 4,959,486,972	P 5,523,662,264
Other securities and debt instruments	<u>751,378,548</u>	<u>1,099,360,376</u>
	<u>P 5,710,865,520</u>	<u>P 6,623,022,640</u>

As to currency, the account consists of the following:

	<u>2011</u>	<u>2010</u>
Philippine peso	P 3,844,671,779	P 4,704,177,509
Foreign currency	<u>1,866,193,741</u>	<u>1,918,845,131</u>
	<u>P 5,710,865,520</u>	<u>P 6,623,022,640</u>

Changes in the AFS securities are summarized below.

	<u>2011</u>	<u>2010</u>
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)
	<u>P 5,710,865,520</u>	<u>P 6,623,022,640</u>

The reconciliation of unrealized fair value gains on AFS securities reported in capital funds is shown below.

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	<u>P 59,976,876</u>	(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
	<u>461,918,410</u>	<u>66,069,624</u>
Balance at end of year	<u>P 521,895,286</u>	<u>P 59,976,876</u>

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:

	<u>2011</u>	<u>2010</u>
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	<u>1,905,973,799</u>	<u>1,928,016,653</u>
	13,610,992,772	11,213,216,561
Unearned discount	<u>(54,740,908)</u>	<u>(26,030,625)</u>
	<u>13,556,251,864</u>	<u>11,187,185,936</u>
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	<u>58,001,421</u>	<u>3,950,528</u>
	<u>3,640,059,716</u>	<u>2,671,143,962</u>
	17,196,311,580	13,858,329,898
Allowance for impairment losses	<u>(491,656,035)</u>	<u>(488,658,104)</u>
	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):

	<u>2011</u>	<u>2010</u>
Within one year	P 10,626,504	P 8,680,271
Beyond one year	<u>2,984,489</u>	<u>2,532,946</u>
	<u>P 13,610,993</u>	<u>P 11,213,217</u>

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

	<u>2011</u>	<u>2010</u>
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	<u>3,617,754</u>	<u>3,051,594</u>
	<u>P 13,610,993</u>	<u>P 11,213,217</u>

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

	<u>2011</u>	<u>2010</u>
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	<u>7,463,196</u>	<u>5,752,373</u>
	<u>P 13,610,993</u>	<u>P 11,213,217</u>

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

	Note	<u>2011</u>	<u>2010</u>
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	<u>-</u>	<u>(5,962,346)</u>
		<u>P 491,656,035</u>	<u>P 488,658,104</u>

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.

	<u>Land</u>	<u>Building</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Transportation Equipment</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
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	-	<u>(25,250,296)</u>	<u>(100,557,680)</u>	<u>(31,148,279)</u>	<u>(69,412,884)</u>	<u>(226,369,139)</u>
Net carrying amount	<u>P 77,747,556</u>	<u>P 71,712,307</u>	<u>P 67,502,291</u>	<u>P 47,084,633</u>	<u>P 76,777,325</u>	<u>P 340,824,112</u>
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	-	<u>(23,229,836)</u>	<u>(103,877,899)</u>	<u>(27,323,335)</u>	<u>(51,572,237)</u>	<u>(206,003,307)</u>
Net carrying amount	<u>P 77,747,556</u>	<u>P 73,571,503</u>	<u>P 69,106,941</u>	<u>P 28,022,129</u>	<u>P 71,922,766</u>	<u>P320,370,895</u>
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	-	<u>(21,246,117)</u>	<u>(88,588,340)</u>	<u>(21,165,644)</u>	<u>(40,742,584)</u>	<u>(171,742,685)</u>
Net carrying amount	<u>P 75,600,000</u>	<u>P 70,859,966</u>	<u>P 65,119,236</u>	<u>P 22,733,381</u>	<u>P 79,625,078</u>	<u>P313,937,661</u>

A reconciliation of the carrying amounts at the beginning and end of 2011 and 2010 is shown below.

	<u>Land</u>	<u>Building</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Transportation Equipment</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
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	<u>P 77,747,556</u>	<u>P 71,712,307</u>	<u>P 67,502,291</u>	<u>P 47,084,633</u>	<u>P 76,777,325</u>	<u>P 340,824,112</u>
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	<u>P 77,747,556</u>	<u>P 73,571,503</u>	<u>P 69,106,941</u>	<u>P 28,022,129</u>	<u>P 71,922,766</u>	<u>P 320,370,895</u>

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.

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
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	<u>P 337,710,274</u>	<u>P 59,682,870</u>	<u>P 397,393,144</u>

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
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	<u>P 234,012,728</u>	<u>P 48,515,983</u>	<u>P 282,528,711</u>
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	<u>P 232,920,469</u>	<u>P 73,255,168</u>	<u>P 306,175,637</u>

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2011 and 2010 is shown below.

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
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	<u>-</u>	<u>(10,642,265)</u>	<u>(10,642,265)</u>
Balance at December 31, 2011, net of accumulated depreciation and impairment			
	<u>P 337,710,274</u>	<u>P 59,682,870</u>	<u>P 397,393,144</u>
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	<u>-</u>	<u>(10,407,348)</u>	<u>(10,407,348)</u>
Balance at December 31, 2010, net of accumulated depreciation and impairment			
	<u>P 234,012,728</u>	<u>P 48,515,983</u>	<u>P 282,528,711</u>

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	<u>2011</u>	<u>2010</u>
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)
		<u>P 476,251,433</u>	<u>P 506,994,058</u>

The movements of allowance for impairment losses follow:

	Note	<u>2011</u>	<u>2010</u>
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)
		<u>P 17,643,424</u>	<u>P 18,023,423</u>

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:

	<u>2011</u>	<u>2010</u>
Within one year	P 20,935,723,448	P16,657,132,425
Beyond one year	<u>259,264,669</u>	<u>930,274,000</u>
	<u>P 21,194,988,117</u>	<u>P17,587,406,425</u>

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

	<u>2011</u>	<u>2010</u>
Peso	P 18,894,928,262	P15,411,467,667
Foreign	<u>2,300,059,855</u>	<u>2,175,938,758</u>
	<u>P 21,194,988,117</u>	<u>P17,587,406,425</u>

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:

	<u>2011</u>	<u>2010</u>
Within one year	P 37,102,210	P 1,110,109,520
Beyond one year	<u>84,380,389</u>	<u>102,892,672</u>
	<u>P 121,482,599</u>	<u>P 1,213,002,192</u>

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:

	<u>Note</u>	<u>2011</u>	<u>2010</u>
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		<u>33,659,302</u>	<u>29,245,846</u>
		<u>P 895,612,333</u>	<u>P 850,971,692</u>

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:

	<u>Shares</u>		<u>Amount</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
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)
			<u>P 245,000,000</u>	<u>P 245,000,000</u>

	<u>Shares</u>		<u>Amount</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Common shares – P100 par value				
Authorized – 17,000,000 shares				
Issued and outstanding	<u>4,200,000</u>	<u>4,200,000</u>	<u>P 420,000,000</u>	<u>P 420,000,000</u>

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
		<u>P 102,527,458</u>	<u>P 58,810,180</u>

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
	<u>P 111,934,801</u>	<u>P 79,895,462</u>

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.

	<u>2011</u>	<u>2010</u>
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	<u>46,249,395</u>	<u>38,037,125</u>
	<u>P 255,380,658</u>	<u>P 211,786,006</u>

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):

	<u>2011</u>	<u>2010</u>
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)	<u>4,532,154</u>
	<u>P 6,791,741</u>	<u>P 7,032,919</u>

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

	<u>2011</u>	<u>2010</u>
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	<u>22,976,759</u>	<u>2,300,425</u>
Balance at end of year	<u>P 65,437,303</u>	<u>P 37,394,689</u>

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

	<u>2011</u>		<u>2010</u>
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	<u>4,755,263</u>		<u>1,852,792</u>
Balance at end of year	<u>P 44,927,195</u>	P	<u>34,893,924</u>

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

	<u>2011</u>		<u>2010</u>
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	(<u>29,025</u>)	(<u>79,222</u>)
	<u>P 6,701,781</u>	P	<u>6,906,959</u>

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

	<u>2011</u>		<u>2010</u>
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	(<u>6,942,959</u>)	(<u>22,144,508</u>)
Balance at end of year	<u>P 6,791,741</u>	P	<u>7,032,919</u>

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

	<u>2011</u>		<u>2010</u>
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.

	<u>2011</u>		<u>2010</u>		<u>2009</u>		<u>2008</u>		<u>2007</u>
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	<u>44,927</u>		<u>34,894</u>		<u>11,926</u>		<u>11,775</u>		<u>14,503</u>
Deficit in the plan	<u>P 20,510</u>	P	<u>2,501</u>	P	<u>17,211</u>	P	<u>16,285</u>	P	<u>13,256</u>

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:

	<u>2011</u>		<u>2010</u>
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.

	<u>2011</u>		<u>2010</u>
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
	<u>P 49,777,378</u>	P	<u>22,237,394</u>

21. TAXES

21.01 Current and Deferred Taxes

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

	<u>2011</u>	<u>2010</u>
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%	<u>5,467,061</u>	<u>999,877</u>
	<u>112,456,713</u>	<u>68,954,163</u>
Deferred tax income relating to origination and reversal of temporary differences	<u>(12,895,338)</u>	<u>(66,209,946)</u>
Tax expense reported in the statements of income	<u>P 99,561,375</u>	<u>P 2,744,217</u>

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

	<u>2011</u>	<u>2010</u>
Tax on pretax profit at 30%	P 253,960,649	P 205,806,388
Adjustment for income subjected to lower tax rates	<u>(62,119,270)</u>	<u>(49,762,803)</u>
Tax effects of:		
Non-taxable income	<u>(208,034,794)</u>	<u>(194,432,063)</u>
Non-deductible expenses	<u>115,754,790</u>	<u>41,132,695</u>
Tax expense reported in the statements of income	<u>P 99,561,375</u>	<u>P 2,744,217</u>

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:

	<u>Statements of Financial</u>		<u>Statements of Income</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
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	<u>P 159,606,709</u>	<u>P146,711,371</u>		
Deferred Tax Expense (Income)			<u>(P 12,895,338)</u>	<u>(P 66,209,946)</u>

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:

<u>Year</u>	<u>Original Amount</u>	<u>Applied in Previous Year</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2011	P 6,374,842	P -	P 6,374,842	2014
2010	<u>11,394,468</u>	<u>-</u>	<u>11,394,468</u>	2013
	<u>P 17,769,310</u>	<u>P -</u>	<u>P 17,769,310</u>	

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:

	<u>2011</u>	<u>2010</u>
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	<u>24,880,204</u>	<u>31,279,490</u>
	<u>P 194,105,384</u>	<u>P 173,734,487</u>

- 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:

	<u>2011</u>	<u>2010</u>
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	<u>190,415,055</u>	<u>300,849,092</u>
	<u>P 3,127,484,888</u>	<u>P 2,358,503,781</u>

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:

	<u>2011</u>	<u>2010</u>
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	<u>626,173,785</u>	<u>486,545,776</u>
	<u>P 1,933,496,596</u>	<u>P 1,701,965,430</u>

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:

	<u>2011</u>	<u>2010</u>
Return on average capital		
<u>Net profit</u>	24.3%	32.7%
Average total capital accounts		
Return on average resources		
<u>Net profit</u>	3.1%	3.5%
Average total resources		

	<u>2011</u>	<u>2010</u>
Net interest margin		
<u>Net interest income</u>	4.8%	5.0%
Average interest earning resources		
Capital to risk assets ratio		
<u>Total capital</u>	26.5%	22.8%
Risk resources		

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:

	<u>Notes</u>		
Loans and other receivables	10	P	5,008,884
Bank premises	11		4,873,267
Investment properties	12		13,522,477
Other resources			<u>853,085</u>
		<u>P</u>	<u>24,257,713</u>

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:

	<u>Note</u>	
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		<u>2,581,514</u>
		<u>P 178,324,986</u>

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	<u>7,213,070</u>
	<u>P 137,673,311</u>

(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	<u>3,829,094</u>
	<u>P 512,054,538</u>

(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	<u>59,830,839</u>
	<u>P 125,662,804</u>

(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	<u>25,298,998</u>
	<u>P 573,871,634</u>

Location map

METRO MANILA:

Main Office (Caloocan) • Adriatico-Malate
Alabang • Banawe • Binondo Corporate Center
Camarin • Carmen Planas
Commonwealth-Fairview • Congressional Ave.-
Quezon City • Cubao • Del Monte
EDSA-Caloocan Business Center • Elcano
Greenhills • Karuhatan-Malinta
Kaybiga, Caloocan • Las Piñas • Mabini C-3
Madrigal Business Park • Makati • Malabon
Malabon-Rizal Avenue Extension
Mandaluyong • Marikina • Navotas
Novaliches • Ortigas Business Center • Padre
Algue • Pasay • Paso de Blas • Pasig Blvd.-
Kapitolyo • Quintin Paredes Business Center
Samson Road • Sucat-Parañaque
The Fort • Valenzuela

PROVINCIAL:

Angeles • Antipolo • Bacolod • Baguio
Baliuag • Batangas • Cabanatuan
Cagayan de Oro • Cainta • Calamba
Cebu-Downtown • Cebu-Mandaue
Dagupan • Davao-Bajada • Davao-Sales
Gapan • General Santos City
Gen. Tinio • Iloilo • Imus • Laoag • Lapu-Lapu
City • La Union • Malolos • Masinag-Antipolo
Meycauayan • Muzon • Naga City
Olongapo • San Fernando, Pampanga
Sta. Maria • Sta. Rosa, Laguna
Tarlac • Urdaneta

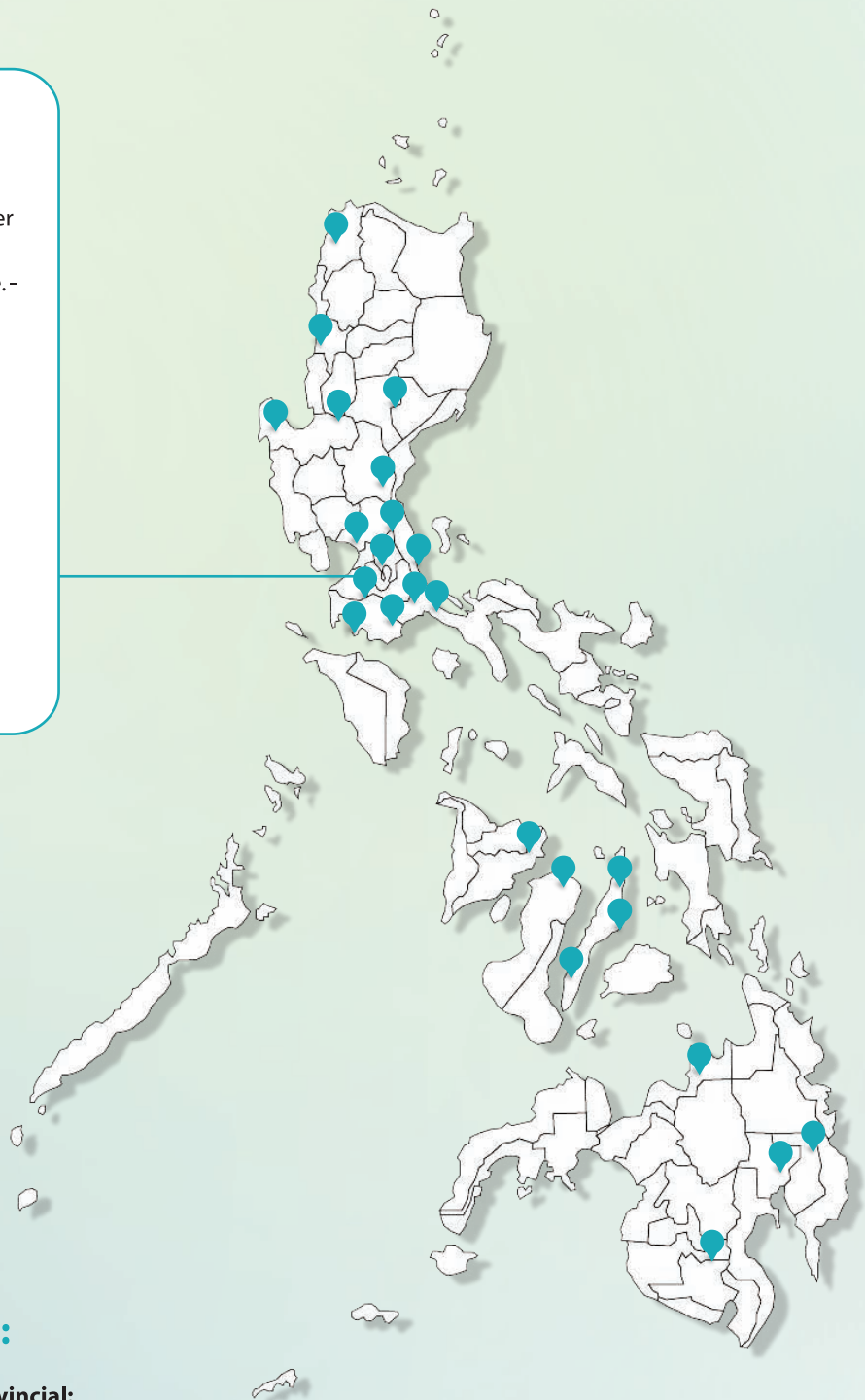
SOON TO OPEN BRANCHES:

Metro Manila:


- Salcedo Village-Makati
- Pedro Gil - Paco
- Bangkal - Makati
- Timog Ave. - Quezon City
- Mayon/La Loma - Quezon City
- Baclaran - Pasay City
- Pasig City
- Mandaluyong
- West Ave. - Quezon City

Provincial:

- Lipa City, Batangas
- Legazpi City, Albay
- Puerto Princesa City-Palawan
- Tagbilaran City-Bohol
- Lucena City, Quezon



Legend:

 - PBB Provincial Branches

Branch directory

METRO MANILA BRANCHES:

Main Branch

350 Rizal Ave. Ext. cor 8th Ave.
Grace Park, Caloocan City
Phone: (632) 363-3333
Fax: (632) 363-0291

Adriatico - Malate

G/F Hostel 1632 Adriatico Street,
Malate, Manila
Phone: 353-3258
353-3262
Fax: 450-1482

Alabang

Unit 2 of Aurora Building
Alabang-Zapote Road
Alabang, Muntinlupa City
Phone: (632) 850-9325
809-2528
Fax: (632) 809-3191

Banawe

Units 5-7 Solmac Bldg.
84 Dapitan cor Banawe Sts.
Sta. Mesa Heights, Quezon City
Phone: (632) 410-8656
410-8350
Fax: (632) 410-9019

Binondo Corporate Center

1126 Soler St., Binondo Manila
Phone: (632) 242-0601
309-3785
Fax: (632) 309-3784

Camarin

Zabarte Town Center
588 Camarin Rd. cor. Zabarte Rd.
North Caloocan City
Phone: (632) 962-0232
962-0160
Fax: (632) 962-0627

Carmen Planas

869 Carmen Planas St.
Binondo, Manila
Phone: (632) 245-5083
245-5066
Fax: (632) 245-5226

Commonwealth - Fairview

G/F Datamex - College of St. Adeline,
Commonwealth Avenue, East Fairview
Park Subdivision, Quezon City
Phone: (632) 376-2358
376-9477
428-7104

Congressional Ave. – Quezon City

622 Congressional Avenue,
Brgy. Bahay Toro, Quezon City
Phone: 921-2919
921-2932
Fax: 453-7242

Cubao

Units D, E, & F Timbol Bldg.
915 Aurora Blvd., Cubao
Quezon City
Phone: (632) 709-3695
438-9966
Fax: (632) 709-3649

Del Monte

284-286 Del Monte Ave.
Quezon City
Phone: (632) 749-9089
749-9103
414-2726
Fax: (632) 742-2655

Edsa-Caloocan Business Center

574 Epifanio Delos Santos Avenue
(EDSA), Caloocan City
Phone: (632) 363-0165
363-2493
Fax: (632) 363-1635

Elcano

730 Elcano St., Binondo, Manila
Phone: (632) 241-9824
241-5629
Fax: (632) 241-4287

Greenhills

G/F LGI Building,
Ortigas Ave., Barangay Greenhills,
San Juan
Phone: (632) 788-9450

Karuhatan - Malinta

G/F HPS Building
McArthur Highway, Karuhatan
Valenzuela City
Phone: (632) 922-0898
444-3688
Fax: (632) 922-0891

Kaybiga, Caloocan

Guilmar Marble Corporation Bldg.
297 General Luis St.
Kaybiga, Caloocan City
Phone: (632) 352-7872
417-0165
Fax: (632) 352-7791

Las Piñas

Units 1 & 2 G/F D'Grand Bldg.
San Beda Commercial
Zapote-Alabang Rd.,
Las Piñas City
Phone: (632) 874-7966
871-0092
Fax: (632) 875-0589

Mabini-C3

200 A. Mabini St., Maypajo
Caloocan City
Phone: (632) 287-8895
287-6621
Fax: (632) 288-1249

Madrigal Business Park

Unit 102 G/F Corporate Center
1906 Finance Drive Madrigal
Business Park, Muntinlupa City
Phone: (632) 822-6646; 822-2706
822-6716

Makati

137 Yakal St., Makati City
Phone: (632) 892-6768
892-8498
817-5720
Fax: (632) 812-4755

Malabon

155 Gov. Pascual Ave., Malabon City
Phone: (632) 288-0078
288-1670
Fax: (632) 287-7873

Malabon - Rizal Avenue

726 Rizal Avenue Barangay Tañong,
Malabon City
Phone: (632) 447-6044

Mandaluyong

Unit I, Facilities Center
Shaw Blvd., Mandaluyong City
Phone: (632) 531-3508
531-3539
718-0103
Fax: (632) 531-3537

Marikina

306 J.P. Rizal St., Sta. Elena
Marikina City
Phone: (632) 646-5864
933-3108
933-3109
Fax: (632) 646-6294

Navotas

G/F Teresita Bldg.
Northbay Blvd., Navotas City
Phone: (632) 355-4143
355-4159; 383-1410
Fax: (632) 355-4274

Novaliches

Krystle Bldg.
858 Quirino Highway
Novaliches, Quezon City
Phone: (632) 936-3467
938-4038
Fax: (632) 418-3132

Ortigas Business Center

Unit P28-29 Bldg. B
Ortigas Home Depot Complex
#1 Julia Vargas Avenue, cor.
Meralco Avenue, Barangay Ugong
Pasig City
Phone: (632) 470-7944
570-6862
914-7032
Fax: (632) 570-6863

Padre Algue

G/F City Square Residences
#1105 F.M. Guerrero St.
cor. Padre Algue St., Tondo, Manila
Phone: (632) 353-7146
353-7147
Fax: (632) 353-6695

Pasay

2241 C.K. Sy Bldg.
Taft Ave., Pasay City
Phone: (632) 551-5830
510-4641
510-4643
Fax: (632) 551-5833

Paso de Blas

Maysan Road cor. Santiago St.,
8rgy. Paso de Blas, Valenzuela City
Phone: (632) 293-1933
292-3575
Fax: (632) 292-4136

Pasig Blvd. - Kapitolyo

Ground Floor Unit 4
Elements on Rosemarie Street, Pasig City
Phone: (632) 234-0607 / 4460183
Fax: (632) 234-0608

Quintin Paredes Business Center

G/F Downtown Center Bldg.
Quintin Paredes St.
Binondo, Manila
Phone: (632) 242-0871
242-0839
Fax: (632) 241-7123

Samson Road

#117 D&E Samson Rd.
Caloocan City
Phone: (632) 332-8971
332-8506
Fax: (632) 332-9495

Sucat Paranaque

Unit B-10-A JAKA Mall Plaza
A. Santos Ave, Paranaque City
Phone: 501-6247
552-2547
552-2548
Fax: 552-2548

The Fort

Units 104-105
Forbeswood Towers,
Rizal Drive cor. Burgos Circle
Bonifacio Global City, Taguig City
Phone: (632) 856-6653 to 54
Fax: (632) 856-6652

Valenzuela

215 McArthur Highway
Karuhatan, Valenzuela City
Phone: (632) 443-8113 or 18
Fax: (632) 443-9030

PROVINCIAL BRANCHES:**Angeles**

McArthur Square, Lot 5 Block 6
McArthur Highway
Angeles City, Pampanga
Phone: (045) 626-2088 to 89
888-7205
Fax: (045) 626-2087

Antipolo

Units 3 & 4, Megathon Bldg.
Circumferential Rd.
Brgy. San Roque, Antipolo City
Phone: (632) 697-3051 or 54
Fax: (632) 697-3018

Bacolod

G/F Philam Life Bacolod Bldg.
Lacson St., cor. Galo St.
Bacolod City
Phone: (034) 435-5744
435-5734
435-5683
Fax: (034) 435-5745

Baguio

G/F, CTTL Condotel
Abanao Ext., Baguio City
Phone: (074) 447 -2692
447 -2694
Fax: (074) 447-2693

Baliuag

Benigno Aquino St.
Baliuag, Bulacan
Phone: (044) 766-3485
673-5215
Fax: (044) 766-3575

Batangas

F & F Uy Bldg., #22 P. Genato St.
Batangas City
Phone: (043) 723-7556
723-4541
723-8435
Fax: (043) 722-1089

Cabanatuan

Paco Roman St.
Cabanatuan City, Nueva Ecija
Phone: (044) 940-1470
464-7411
464-7417
Fax: (044) 940-1491

Cagayan de Oro

Doors 1&2 Surposo Building
#281 Recto Ave., Lapasan Hi-way
Cagayan de Oro City
Phone: (088) 231-6682
231-6683
231-6680
Fax: (088) 231-6681

Cainta

V.V Soliven cor. Felix Ave.
Cainta, Rizal
Phone: (632) 681-1658
249-2391
647-5622
Fax: (632) 249-2390

Calamba

G/F Unit 2 Kim-Kat Annex Bldg.
National Highway, Parian,
Calamba, Laguna
Phone: (049) 508-0059
834-3283
545-0950
Fax: (02) 420-8207

Cebu-Downtown

Units 1-2 Lianting Bldg.
130 F. Gonzales St. near
Cor. Juan Luna St., Cebu City
Phone: (032) 253-2518
255-6490
255-6607
Fax: (032) 253-2366

Cebu-Mandaue

Units 1-2 Wireless Plaza Bldg.
H. Cortez Ave., cor., Highway Seno
Subangdaku, Mandaue City, Cebu
Phone: (032) 345-4462
345-1520
345-2657
Fax: (032) 345-5274

Dagupan

Rizal St., Dagupan City
Pangasinan
Phone: (075) 523-4780
523-4781
516-2045
Fax: (075) 523-4701

Davao-Bajada

G/F DCCCII Bldg., JP Laurel Avenue
Bajada, Davao City
Phone: (082) 300-4386
222-2316
222-5146
Fax: (082) 300-4385

Davao-Sales

Doors 7 & 8 JM Bldg.
Governor Sales St., Davao City
Phone: (082) 222-4281
222-4452
222-4951
Fax: (082) 224-2597

Gapan

Tinio St. Brgy. San Vicente
Gapan City, Nueva Ecija
Phone: (044) 486-1439
486-2437
Fax: (044) 486-0893

Branch directory

General Santos City

GSC SUNCITY Suite
SUNCITY Complex, Nat'l Highway
Lagao, General Santos City
Phone: (083) 301-6015
552-0563
552-0591
Fax: (083) 301-6014

General Tinio

Poblacion Central
Gen. Tinio, Nueva Ecija
Phone: (044) 973-0598
973-0716
Fax: (044) 973-0468

Iloilo

#25 Quezon St., Iloilo City
Phone: (033) 336-5250
336-5933
336-9086
Fax: (033) 336-9472

Imus

Aguinaldo Highway
Tanzang Luma, Imus Cavite
Phone: (046) 472-3663
472-3665
Fax: (046) 472-3664

Laoag

G/F, Laoag Allied Marketing Bldg.
Barangay 19, Rizal Street
Laoag City
Phone: (077) 772-3027
772-3041
772-3042
771-1523

La Union

G/F Virginia Bldg.
Quezon Ave., cor. Flores St.
San Fernando City, La Union
Phone: (072) 242-0350
242-0210
Fax: (072) 242-0372

Lapu-Lapu City

G/F AMCO Building
M.L. Quezon, National Rd., Pajo
Lapu-Lapu City, Cebu
Phone: (032) 236-3018
495-2831
Fax: (032) 238-8590

Malolos

G' Floor Carmencita Bldg.
Paseo del Congreso
Catmon, Malolos City, Bulacan
Phone: (044) 760-4835
760-4836
Fax: (044) 760-4834

Masinag-Antipolo

Unit 104 G/F Rikland Centre
Marcos Highway, Mayamot
Antipolo City
Phone: (632) 654-6654
654-6034
250-2135

Meycauayan

Medical Plaza Bldg.
McArthur Highway, Banga
Meycauayan, Bulacan
Phone: (044) 935-3064
840-4855
Fax: (044) 935-3068

Muzon

807 Luwasan, Muzon
City of San Jose Del Monte, Bulacan
Phone: (044) 760-4703
760-4709
760-4711
698-2123
Fax: (044) 691-0183

Naga City

Unit C G/F CBD Plaza Hotel
Ninoy and Cory Ave.
Central Business District II
Triangulo, Naga City
Phone: (054) 811-8216
811-2854
811-2193
473-6303
Fax: (054) 473-6309

Olongapo

2420 Rizal Avenue
Barangay East Bajac-Bajac
Olongapo City
Phone: (047) 222-9949
222-9950
222-9951
222-9957

San Fernando, Pampanga

Hyatt Garden Bldg.
McArthur Highway, Dolores
City of San Fernando, Pampanga
Phone: (045) 961-0523
961-0524
961-1854; 860-3858
Fax: (045) 961-0524

Sta. Maria

Angelica Bldg.
Gov. F. Halili Ave., Bagbaguin
Sta. Maria, Bulacan
Phone: (044) 641-0631
641-2549
(632) 299-6318
Fax: (632) 299-6326

Sta. Rosa, Laguna

#100 Nat'l Highway
Cor. Roque Lasaga St.
Sta. Rosa, Laguna
Phone: (049) 837-2324
534-5624
534-5627
534-5629
Fax: (632) 534-5622

Tarlac

Liwayway Bldg., F. Tañedo St.
Tarlac City
Phone: (045) 491-1353
491-1350
Fax: (045) 491-1352

Urdaneta

5-Star Auto Supply Annex Bldg.
National Highway, Nancayasan
Urdaneta, Pangasinan
Phone: (075) 624-2108
568-5886
Fax: (075) 568-5876

OFF-SITE ATM

Market! Market! Mall

Open Ground Floor, Fiesta Market
Bonifacio Global City, Taguig City

Rugay Maternity Hospital

M. Cruz St. Sabang
Baliuag, Bulacan





Corporate Information

Head Office
350 Rizal Avenue Extension cor 8th Avenue
Grace Park, Caloocan City, Philippines
Phone: (632) 363-3333
Fax: (632)363-0291
www.pbb.com.ph

The 2011 Annual Report is published by Philippine Business Bank
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