



United Overseas Bank Philippines

Financial Statements
December 31, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV&Co
ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT

The Board of Directors
United Overseas Bank Philippines

Report on the Financial Statements

We have audited the accompanying financial statements of United Overseas Bank Philippines, which comprise the statements of financial position as at December 31, 2010 and 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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



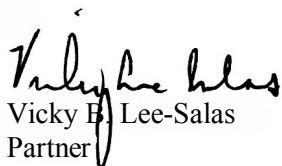
Opinion

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of United Overseas Bank Philippines. The information has been subjected to the auditing procedures applied in our 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.

SYCIP GORRES VELAYO & CO.



Vicky B. Lee-Salas
Partner

CPA Certificate No. 86838

SEC Accreditation No. 0115-AR-2

Tax Identification No. 129-434-735

BIR Accreditation No. 08-001998-53-2009

June 1, 2009, Valid until May 31, 2012

PTR No. 2641532, January 3, 2011, Makati City

April 12, 2011



UNITED OVERSEAS BANK PHILIPPINES
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2010	2009
ASSETS		
Cash and Other Cash Items (Note 11)	₱2,708,104	₱7,458,299
Due from Bangko Sentral ng Pilipinas (Note 11)	1,721,864,049	1,828,356,148
Due from Other Banks	15,825,520	24,736,605
Interbank Loans Receivable and Securities Purchased under Resale Agreements	491,525,518	721,988,904
Available-for-Sale Investments (Note 6)	70,573,748	111,606,397
Loans and Receivables (Notes 7 and 22)	90,115,629	98,423,632
Property and Equipment (Note 8)	9,733,343	8,925,670
Other Assets (Note 9)	29,044,601	216,687,252
	₱2,431,390,512	₱3,018,182,907
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Note 11)		
Demand	₱1,484,928,110	₱2,099,549,001
Savings	69,574,488	61,407,691
Time	145,215	152,670
	1,554,647,813	2,161,109,362
Due to Bangko Sentral ng Pilipinas	131,000	-
Bills Payable (Notes 12 and 22)	50,416,000	41,580,000
Manager's Checks	16,818,710	5,544,060
Income Tax Payable (Note 20)	1,835	307,322
Accrued Taxes and Interest	646,706	602,826
Net Pension Liability (Notes 17 and 20)	23,495,739	19,392,049
Other Liabilities (Notes 13 and 24)	109,625,339	127,121,067
	1,755,783,142	2,355,656,686
EQUITY		
Capital stock (Note 15)	920,000,000	920,000,000
Deficit	(243,779,125)	(256,748,757)
Net changes in unrealized loss on available-for-sale investments (Note 6)	(569,283)	(263,578)
Cumulative translation adjustment	(44,222)	(461,444)
	675,607,370	662,526,221
	₱2,431,390,512	₱3,018,182,907

See accompanying Notes to Financial Statements.



UNITED OVERSEAS BANK PHILIPPINES
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2010	2009
INTEREST INCOME		
Due from Bangko Sentral ng Pilipinas	₱71,041,222	₱19,180,189
Loans and receivables (Notes 7 and 22)	55,133,566	75,312,975
Interbank loans receivable and securities purchased under resale agreements	17,140,667	18,581,215
Investment securities (Note 6)	5,213,454	11,013,819
Deposits in banks	16,635	64,816
	148,545,544	124,153,014
INTEREST EXPENSE		
Deposit liabilities (Note 11)	30,514,081	10,628,395
Bills payable (Notes 12 and 22)	100,799	454,395
	30,614,880	11,082,790
NET INTEREST INCOME	117,930,664	113,070,224
OTHER OPERATING INCOME		
Gain on sale of foreclosed assets	6,451,068	3,435,622
Trading and securities gains (Note 6)	1,970,514	13,340,578
Service fees and commission income	788,970	920,426
Miscellaneous (Note 16)	(411,891)	(2,024,956)
	8,798,661	15,671,670
OTHER OPERATING EXPENSES		
Compensation and fringe benefits (Notes 17 and 22)	60,519,313	54,630,885
Provision for (reversal of) impairment and credit losses (Note 10)	(17,744,404)	3,980,000
Taxes and licenses	14,148,242	6,422,372
Occupancy and equipment-related expenses (Note 18)	10,033,670	15,265,419
Outside services	7,163,439	8,038,994
Depreciation and amortization (Note 8)	2,881,944	3,144,192
Miscellaneous (Note 19)	18,206,027	17,666,866
	95,208,231	109,148,728
INCOME BEFORE INCOME TAX	31,521,094	19,593,166
PROVISION FOR INCOME TAX (Note 20)	18,551,462	9,232,880
NET INCOME	12,969,632	10,360,286
OTHER COMPREHENSIVE INCOME (LOSS)		
Net changes in unrealized gain (loss) on available-for-sale investments (Note 6)	(305,705)	3,904,451
Cumulative translation adjustment	417,222	(461,444)
	111,517	3,443,007
TOTAL COMPREHENSIVE INCOME, NET OF TAX	₱13,081,149	₱13,803,293

See accompanying Notes to Financial Statements.



UNITED OVERSEAS BANK PHILIPPINES
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Notes 2 and 15)	Deficit	Net Unrealized Loss on Available-for- Sale Investments (Note 6)	Cumulative Translation Adjustment	Total
Balance at January 1, 2010	₱920,000,000	(₱256,748,757)	(₱263,578)	(₱461,444)	₱662,526,221
Total comprehensive income	–	12,969,632	(305,705)	417,222	13,081,149
Balance at December 31, 2010	920,000,000	(₱243,779,125)	(₱569,283)	(₱44,222)	₱675,607,370
Balance at January 1, 2009	₱920,000,000	(₱267,109,043)	(₱4,168,029)	₱–	₱648,722,928
Total comprehensive income	–	10,360,286	3,904,451	(461,444)	13,803,293
Balance at December 31, 2009	₱920,000,000	(₱256,748,757)	(₱263,578)	(₱461,444)	₱662,526,221

See accompanying Notes to Financial Statements.



UNITED OVERSEAS BANK PHILIPPINES
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱31,521,094	₱19,593,166
Adjustments for:		
Provision for (reversal of) impairment and credit losses (Note 10)	(17,744,404)	3,980,000
Gain on sale of foreclosed assets	(6,451,068)	(3,435,622)
Retirement expense (Note 17)	4,103,690	2,968,860
Depreciation and amortization (Note 8)	2,881,944	3,144,192
Trading and securities gains (Note 6)	(1,880,368)	(13,340,578)
Accretion of premium on available-for-sale investments	878,875	66,428
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Loans and receivables	26,644,724	(10,146,592)
Other assets	194,093,719	84,455,044
Increase (decrease) in the amounts of:		
Deposit liabilities	(606,461,549)	2,068,732,459
Due to Bangko Sentral ng Pilipinas	131,000	(614,281)
Manager's checks	11,274,650	(4,898,873)
Accrued taxes and interest	43,880	(7,358,172)
Other liabilities	(17,495,728)	(55,479,743)
Net cash generated from (used in) operations	(378,459,541)	2,087,666,288
Income taxes paid	(18,856,949)	(8,925,558)
Net cash provided by (used in) operating activities	(397,316,490)	2,078,740,730
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale investments	(137,295,625)	(371,288,352)
Property and equipment (Note 8)	(4,315,885)	(3,034,414)
Proceeds from sale of:		
Available-for-sale investments	179,024,062	392,176,088
Property and equipment	33,951	68,574
Net cash provided by investing activities	37,446,503	17,921,896
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availments of bills payable	2,138,564,500	5,168,610,468
Settlements of bills payable	(2,129,728,500)	(5,181,678,468)
Net cash provided by (used in) financing activities	8,836,000	(13,068,000)
Effect of exchange rate differences	417,222	(461,444)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(350,616,765)	2,083,133,182

(Forward)



	Years Ended December 31	
	2010	2009
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	₱7,458,299	₱1,406,588
Due from Bangko Sentral ng Pilipinas	1,828,356,148	460,905,968
Due from other banks	24,736,605	37,094,218
Interbank loans receivable and securities purchased under resale agreements	721,988,904	-
	2,582,539,956	499,406,774
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	2,708,104	7,458,299
Due from Bangko Sentral ng Pilipinas	1,721,864,049	1,828,356,148
Due from other banks	15,825,520	24,736,605
Interbank loans receivable and securities purchased under resale agreements	491,525,518	721,988,904
	₱2,231,923,191	₱2,582,539,956

OPERATING CASH FLOWS FROM INTEREST

	Years Ended December 31	
	2010	2009
Interest paid	₱30,614,202	₱11,127,547
Interest received	148,041,204	121,495,632
Dividend received	500,000	500,000

See accompanying Notes to Financial Statements.



UNITED OVERSEAS BANK PHILIPPINES

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

United Overseas Bank Philippines (the Bank or UOBP) is a foreign thrift bank registered in the Philippines with principal office at the 17th Floor, Pacific Star Building, Sen. Gil Puyat Avenue corner Makati Avenue, Makati City.

In November 1999, United Overseas Bank Limited (UOBL or the Parent Bank) acquired 60.0% of the Bank's voting stock. On July 5, 2002, the Bangko Sentral ng Pilipinas (BSP) approved in principle UOBL's acquisition of the remaining shareholdings in the Bank held by the remaining minority shareholders. As of December 31, 2003, UOBL holds effectively 100.0% of the Bank's voting stock. The Monetary Board (MB) in its Resolution No. 1379 dated September 23, 2004 approved the 100.0% equity acquisition of UOBP by UOBL and waiver of the submission of the required Joint Certification, subject to: (a) actual infusion by UOBL of ₱2.2 billion fresh capital as required in the amended rehabilitation plan within thirty (30) days from receipt of the MB approval; (b) immediate compliance with the minimum capital requirement through additional fresh cash infusion anytime there is a shortfall in capital; and (c) full implementation of the approved rehabilitation plan together with the restructuring of the financial assistance. In response to the Bank's request, the BSP allowed the Bank to comply with the required capital infusion until February 28, 2005. The Bank's management sought an extension of the infusion of capital for three (3) months from February 28, 2005.

However, UOBP decided to rationalize its operations in the Philippines by shifting its operations from commercial banking to wholesale and fee-based banking, thus, UOBL did not proceed with the infusion of the ₱2.2 billion fresh capital to implement the BSP and the Philippine Deposit Insurance Corporation (PDIC)-approved revised rehabilitation plan of UOBP.

On September 8, 2005, MB Resolution No. 1197 approved the (a) conversion of the license of UOBP from commercial to thrift bank subject to UOBP's compliance of certain conditions; (b) cancellation of the ₱4.2 billion equity commitment of UOBL to UOBP under the previously approved 2002 rehabilitation plan; and (c) sale of 66 out of 67 UOBP branches to Banco De Oro (BDO) and assumption of the latter of the corresponding deposit liabilities.

The accompanying financial statements were authorized for issue on April 12, 2011 by the Bank's board of directors (BOD).

2. Corporate Restructuring Program

On May 6, 2005, during the special meeting of the BOD, the Corporate Restructuring Program of the Bank was discussed. In such meeting, UOBP decided to rationalize its operations and reduce losses. The proposal is for UOBP to convert to a thrift bank and concentrate on wholesale banking and fee-based business. As the Bank would no longer need a large network of branches, the management entered into an agreement with BDO to sell its 66 branches, together with the branches' assets and liabilities.



As part of the agreement, the Bank also sold its nonperforming assets (NPAs) to a special purpose vehicle (SPV). These were implemented in the various agreements entered into by and between UOBP and other parties as follows:

Deed of Assignment of Assets and Assumption of Liabilities between UOBP and BDO

The Deed of Assignment of Assets and Assumption of Liabilities was made and executed on May 6, 2005, as amended on December 12, 2005, for the sale of UOBP's 66 out of 67 branches' assets and liabilities. This was approved by BSP and PDIC in December 2005. The pertinent provisions of the agreement follow:

- (a) UOBP absolutely sells, assigns, transfers and conveys identified assets and properties as of November 30, 2005 to BDO. Said assets and properties shall be inclusive of the branch goodwill of UOBP, leasehold rights, branch premises and licenses to operate 66 branches.
- (b) In consideration for the sale of the identified assets and properties, BDO shall assume all recorded UOBP deposit liabilities and certain other liabilities of the 66 branches as of December 15, 2005.
- (c) Meanwhile, BDO formed a 100%-owned SPV to acquire the nonperforming assets bought back by UOBP from PDIC and certain assets carried in the books of UOBP to fund the purchase of NPAs. The SPV sourced its funds used in acquiring such NPAs as follows: 45.0% from UOBL and 55.0% from BDO, representing the excess of liabilities over assets assumed by BDO.

Agreement between PDIC and UOBP - transfer of the ₱4.42 billion outstanding balance of government securities to PDIC with the corresponding return of the assigned assets

As security to the ₱4.9 billion financial assistance package extended by PDIC to UOBP, then known as Westmont Bank, this agreement was executed on December 13, 2005 to return the government securities which were part of the ₱4.9 billion financial assistance extended by PDIC to UOBP. UOBP returned to PDIC and the latter accepted the securities with outstanding balance of ₱4.42 billion as of the said date. PDIC returned to UOBP the assets over which PDIC ceased to have any interest or claim.

PDIC and UOBP agreed to execute and deliver all documents and agreements necessary to give full force and effect to the agreement. PDIC released and cancelled the pledge constituted pursuant to the Transfer Agreement over the securities.

Memorandum of Agreement (MOA) between UOBP and Onshore Strategic Assets, Inc. (SPV)

Under the MOA dated May 6, 2005 (as amended on December 12, 2005) among UOBP, UOBL and BDO, UOBP agreed to transfer to the SPV the nonperforming loans (NPL), NPAs, and real and other properties acquired (ROPA) at net book value for cash.

3. Accounting Policies

Basis of preparation

The accompanying financial statements have been prepared on a historical cost basis except for the available-for-sale (AFS) investments that have been measured at fair value. The financial statements are presented in Philippine peso, the Bank's functional and presentation currency and amounts are rounded to the nearest thousand pesos (₱000) as indicated.



The accompanying financial statements of the Bank reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of RBU and FCDU is Philippine peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on foreign currency translation). The separate financial statements prepared for these units were combined after eliminating inter-unit accounts.

Statement of compliance

The accompanying financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standard (PFRS) as issued by the International Accounting Standards Board (IASB).

Presentation of financial statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Significant accounting judgments, estimates and assumptions

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Judgments

a. Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue its business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

b. Lease classification

The Bank has entered into lease agreement as a lessee. The lease agreement does not provide for an option to purchase or transfer ownership of the property at the end of the lease and the related lease term does not approximate the estimated useful life of the asset being leased. The Bank has determined that the lessor retains all significant risks and rewards of ownership of this property. This lease agreement is accounted for as operating lease.

c. Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.



The fair values of the Bank's financial instruments are disclosed in Note 5.

d. Classification of financial instruments

The Bank exercises judgment in classifying a financial instrument on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

e. Contingencies

The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. The management currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 23).

f. Functional currency

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Estimates

a. Estimation of allowance for impairment and credit losses on loans and receivables

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, 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 a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers 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 amount and timing of recorded provision for any period would differ if the Bank made different judgments or utilized different estimates. An increase in allowance for impairment and credit losses would increase the recorded provision for (reversal of) impairment and credit losses and decrease the assets.

The allowance for impairment and credit losses on loans and receivables is disclosed in more detail in Note 10.

b. *Valuation of unquoted equity investments or investments in nonmarketable equity securities (INMES)*

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for terms with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Bank calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument or from other observable market data. The Bank values its unquoted equity investment at cost less allowance for impairment.

The details of unquoted equity investments are disclosed in Note 6.

c. *Impairment of AFS investments*

AFS equity investments

The Bank determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 20.0% or more and 'prolonged' as 12 months or longer for quoted equity securities. In making this judgment, the Bank also evaluates other factors, such as normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

AFS debt investments

The Bank classifies certain financial assets as AFS investments and recognizes movements in the fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether such can be considered as an impairment loss that should be recognized in the statement of comprehensive income.

The carrying value and other details of AFS investments are disclosed in Note 6.



d. Recognition of deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The Bank has been in a tax loss position over the past several years. Based on this experience, the Bank believes that it is not highly probable that certain temporary differences will be realized in the future. As of December 31, 2010 and 2009, the Bank did not set up deferred tax assets on the temporary differences. Details of which are disclosed in Note 20.

e. Estimation of pension liability

The determination of obligation and cost of pension benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include discount rates, expected return on plan assets and salary increase rates. In accordance with PFRS, actual results that differ from the Bank's assumptions are accumulated and amortized over the future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Bank believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligations. The present value of the defined benefit obligation is determined by discounting the estimated future cash out flows using the interest rate of Philippine government bonds with terms consistent with the expected employee benefit payout as of the statement of financial position date.

The present value of the retirement obligation and other details for the retirement plan are disclosed in Note 17.

f. Assessing impairment of property and equipment and other assets and estimating useful lives of property and equipment

The Bank assesses impairment on property and equipment and other assets whenever events or changes in circumstances indicate that the carrying amount of property and equipment and other assets may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of property and equipment and other assets exceed its recoverable amount. The recoverable amount is computed using greater of fair value less cost to sell and value in use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.



Also, the Bank reviews periodically the estimated useful lives of its property and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

The carrying value of property and equipment and other assets are disclosed in Notes 8 and 9, respectively.

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation on International Financial Reporting Interpretations Committee (IFRIC) which were adopted as of January 1, 2010. The following new and amended standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Bank.

New and amended standards and interpretations

- PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions*
- PFRS 3 (Revised), *Business Combinations* and PAS 27 (Amended), *Consolidated and Separate Financial Statements*
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
- *Philippine Interpretation IFRIC 17, Distributions of Non-cash Assets to Owners*

Improvements to PFRSs 2008

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* effective beginning on or after July 1, 2009

Improvements to PFRSs 2009

- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PFRS 8, *Operating Segments*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statement of Cash Flows*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- *Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives*
- *Philippine Interpretation IFRIC 16, Hedge in a Net Investment in a Foreign Corporation*

Summary of significant accounting policies

Foreign currency translation - transactions and balances

The books of accounts of the RBU are maintained in Philippine peso, while those of the FCDU are maintained in USD.

RBU

As at reporting date, foreign currency-denominated monetary assets and liabilities of the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year and foreign currency-denominated income and expenses based on PDS weighted



average rate (PDSWAR). Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against current operations in the year in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU

As at the reporting date, the assets and liabilities of the Bank's FCDU are translated into the Bank's presentation currency, the Philippine peso, at PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at PDSWAR for the year. Exchange differences arising on translation of FCDU balances to the presentation currency of the Bank are taken directly to a separate component of other comprehensive income under 'Cumulative translation adjustment' in the statement of comprehensive income.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), due from BSP, due from other banks and interbank loans receivables and securities purchased under resale agreement (SPURA) that are convertible to known amounts of cash with original maturities of three months or less from dates of placements that are subject to insignificant risk of change in value and are used by the Bank in the management of its short-term commitments.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized on the statement of financial position as a loan to the Bank, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreement to resell at a specified future date ('reverse repos') are not recognized on the statement of financial position. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position as SPURA, and is considered as a loan to the counterparty. The Bank is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. The difference between the purchase price and resale price is treated as interest income in the statement of comprehensive income and is accrued over the life of the agreement using the effective interest rate (EIR) method.

Financial instruments - initial recognition and subsequent measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the timeframe established by regulation or convention in the marketplace are recognized on settlement date – the date that an asset is delivered to or by the Bank. Deposit liabilities, amounts due from banks and customers and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.



Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial assets are initially measured at fair value. Except for financial assets and liabilities valued at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments and loans and receivables. The classification depends on the purpose for which the investments were acquired. Financial liabilities are classified into financial liabilities at FVPL and financial liabilities at amortized cost.

The Bank has no financial assets and liabilities at FVPL and HTM investments as of December 31, 2010 and 2009.

Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques, such techniques include using recent arm's length transactions, reference to the current market value of another financial instrument which is substantially the same, and discounted cash flow analysis.

'Day 1' profit or loss

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique, whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the statement of comprehensive income under 'Trading and securities gains', unless it qualifies for recognition as some other type of assets. In cases where the variables used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Derivative instruments

The Bank uses derivative instruments such as forward currency contracts, currency swaps and interest rate swaps. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value.

Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of comprehensive income and are included in 'Trading and securities gains'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Bank has no outstanding derivatives as of December 31, 2010 and 2009.



Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in 'Trading and securities gains' in the statement of comprehensive income. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

As of December 31, 2010 and 2009 the Bank has no outstanding financial assets and liabilities held-for-trading.

Financial assets or financial liabilities designated at FVPL

Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of the Bank's financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Trading and securities gains' in the statement of comprehensive income. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively.

As of December 31, 2010 and 2009, the Bank does not have financial assets and liabilities designated at FVPL.

AFS investments

AFS investments are those which are designated as such or do not qualify to be classified as held-for-trading or designated at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value.

The unrealized gains and losses are recognized directly in equity (other comprehensive income (loss)) under 'Net unrealized gain (loss) on AFS investments' in the statement of financial position. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of comprehensive income. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out



basis. Interest earned while holding AFS equity investments is reported under 'Interest income' using the EIR method. Dividends earned while holding AFS investments are recognized in the profit or loss in the statement of comprehensive income when the right of the payment has been established. The losses arising from impairment of such investments are recycled in the profit or loss in the statement of comprehensive income and removed from the equity.

The AFS investments of the Bank include INMES that do not have a quoted market price in an active market, and whose fair market value cannot be reliably measured. INMES are subsequently carried at cost less allowance for any impairment losses due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value. The losses arising from impairment of INMES investments are recognized under 'Provision for (reversal of) credit and impairment losses' in the statement of comprehensive income.

AFS investments held by the Bank consist of government debt and equity securities (Note 6).

Loans and receivables

This accounting policy relates to the Bank's 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA' and 'Loans and receivables' accounts. These are non derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS investments or financial assets designated at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment and credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in the 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized under 'Provision for (reversal of) impairment and credit losses' in the statement of comprehensive income.

Other financial liabilities

This accounting policy relates to deposit liabilities, bills payable and other borrowed funds which are not designated as FVPL. They are classified as such when the substance of the contractual arrangements results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, bills payable and other financial liabilities not qualified as and not designated at FVPL, are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.



Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, which includes loans and receivable, due from other banks and interbank loans, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). These evidence may include observable data such as: (a) significant financial difficulty of the borrower; b) breach of credit terms such as a default/delinquency in interest or principal payments; c) granting of a concession by the lender to the borrower which the lender would not otherwise consider; d) disappearance of an active market because of financial difficulties or significant market decline for the products of borrower; and e) adverse changes in the industry or economic conditions. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged against profit or loss. Interest income continues to be recognized based on the original EIR of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited under 'Provision for (reversal of) impairment and credit losses' account.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.



For the purpose of a collective evaluation of impairment, financial assets are grouped based on credit risk characteristics such as industry, collateral type, past-due status, and term.

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

AFS investments

The Bank assesses at each reporting date whether there is objective evidence that its AFS investments are impaired.

For equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is significant and prolonged is subject to judgment. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss in the statement of comprehensive income - is removed from equity and recognized in the profit or loss in the statement of comprehensive income under 'Provision for (reversal of) impairment and credit losses'. Impairment losses on equity investments are not reversed through the profit or loss in the statement of comprehensive income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the profit or loss in the statement of comprehensive income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss in the statement of comprehensive income.

Restructured loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized under 'Provision for (reversal of) impairment and credit losses' in the statement of comprehensive income.



Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) has transferred substantially all the risks and rewards of the asset, or
 - (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss in the statement of comprehensive income.

Offsetting financial instruments

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

Leases

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

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



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

Bank as lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are treated as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight line basis over the lease term. Contingent rental payable are recognized as an expense in the period in which they are incurred.

Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to impairment losses, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Interest income on non-performing loans is recorded as income only when the Bank has established that there is high certainty that benefits will flow to the Bank.

Capitalized interest income on restructured loans is deferred and shown as deduction from loans and receivables.

Service fees and commission income

The Bank earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- a. Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission and service charges. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.



b. Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, and brokerage fees. Loan syndication fees are recognized in the profit or loss in the statement of comprehensive income when the syndication has been completed and the Bank retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Trading and securities gains

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities held for trading and gains and losses from disposal of financial assets held for trading and AFS investments.

Dividend Income

Dividend income is recognized when the Bank's right to receive payment is established.

Other income

Income from sale of service is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

Expense recognition

Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Property and equipment

Depreciable properties including property and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and impairment in value, if any, are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the statement of comprehensive income.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets.



The useful lives of the depreciable properties are as follows:

Furniture, fixtures and equipment	3 - 10 years
Leasehold and improvements	5 years or lease term, whichever is shorter

The useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the profit or loss in the statement of comprehensive income (see accounting policy on Impairment of nonfinancial assets).

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the original cost of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

Impairment of nonfinancial assets

This accounting policy applies to property and equipment and other assets. The Bank assesses at each statement of financial position date whether there is any indication that its nonfinancial assets, which include property and equipment and foreclosed properties, may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged to profit or loss in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For nonfinancial assets, an assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of



depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Pension benefits

The Bank is covered by a noncontributory defined benefit retirement plan.

The retirement cost of the Bank is actuarially determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The liability recognized in the statement of financial position in respect of defined benefit pension plans (Note 17) is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10.0% of the higher of the defined benefit obligation and the fair value of plan assets at that date.

These excess gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past-service costs, if any, are recognized immediately in the statement of comprehensive income, unless the changes to the retirement plan are conditional on the employees remaining years 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.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Provisions and contingencies

Provisions are recognized when: (a) the Bank has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each financial position date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense in the statement of comprehensive income.



Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the statement of financial position date.

Deferred tax

Deferred tax is provided using the balance sheet liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in the profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Events after the statement of financial position date

Post-year-end events that provide additional information about the Bank's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed in the notes to financial statements, when material.



Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The following is the listing of issued standards and interpretations which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective.

PAS 24 (Amended), *Related Party Disclosures*

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

PAS 32 (Amended), *Financial Instruments: Presentation - Classification of Rights Issues*

The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Bank after initial application.

PAS 12 (Amended), *Income Taxes*

The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

PFRS 7 (Amended), *Financial Instruments: Disclosures*

The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of the financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

PFRS 9, *Financial Instruments: Classification and Measurement*

PFRS 9 as issued reflects the first phase of the IASB's work on the replacement of PAS 39 and applies to classification and measurement of financial assets and liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address impairment and derecognition of financial instruments and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of PFRS 9 will primarily have an effect on the classification and measurement of the Bank's financial assets and liabilities. The Bank is currently assessing the impact of adopting PFRS 9. However, quantifying the effect of adoption is impracticable since the impact depends on the assets and liabilities held by the Bank at the date of actual adoption.



Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*

The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Bank.

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*

This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Philippines Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Bank.

Improvements to PFRS

Improvements to PFRSs is an omnibus of amendments to PFRS. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments are listed below.

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

The Bank will assess impact of these amendments on its financial position or performance when they become effective.

4. **Financial Risk Management Objectives and Policies**

Introduction

Risk is inherent in the Bank's operations but is managed through a process of ongoing identification, measurement and monitoring of various risk management parameters, limits and other controls. This process of risk management is critical to the Bank's going concern and the Bank's management is aware and responsible for the risk exposures relating to the Bank's business activities.



The Bank is exposed to various financial risks arising from its financial instruments, including, but not limited to the following:

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The BOD has overall responsibility for the oversight of the Bank's risk management process. The board committees, which are responsible for developing, managing and monitoring risk management policies in their specified areas, include the following:

1. Risk Management, Compliance, Audit and Corporate Governance Committee (RMC)
2. Management Committee (MANCOM)
3. Executive Committee (EXCOM)

The RMC deals with, among others, credit risk, liquidity risk and market risk-related matters, including formulation of credit policies and guidelines, review of credit facilities and general portfolio/exposure management.

MANCOM is responsible for overseeing and developing policies and procedures for key areas of management such as but not limited to, setting strategic direction, goals and priorities, allocation of resources, and significant business proposals.

The EXCOM was established by the BOD to formulate the Bank's business strategies and conduct ongoing monitoring of the Bank's performance. The BOD has conferred upon the EXCOM certain discretionary limits and authority over credit and loan approvals, treasury and investment activities, capital expenditure, budgeting, and human resource management.

The RMC is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of risk management framework in relation to the risks faced by the Bank. The RMC is assisted in these functions by Internal Audit Department. Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the RMC.

Credit management

To manage the quality of credit portfolio, a disciplined process is established for regular review and reporting on asset concentrations and portfolio quality so that risks are accurately assessed and properly monitored and approved. These cover large credit exposures by obligor, aggregate exposure levels to individual group/sector, security type, industry exposures, level of nonperforming loans, and adequacy of provisioning requirements. Credit review and audit are performed to proactively identify delinquencies, minimize undesirable concentrations and maximize recoveries. In addition, there is internal rating model to better quantify the credit risk of borrowing clients. Such rating process would result in a more accurate estimate of the probability of future default by borrowers and help provide an analysis of changes in the underlying credit quality of the loan portfolio over the economic cycle.



Excessive concentration risk

Concentrations arise when a number of counterparties belong to a group controlled by a family or a conglomerate or are engaged in similar business activities or activities in the same geographical region, or have some similar economic, political, or other conditions which indicate the relative sensitivity or the group performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentration risk, the Bank has a rigorous process in place to regularly review and report asset concentrations and portfolio quality. These include monitoring the concentration of exposures by obligors. Obligor limits ensure that the Bank is not over-exposed to a single borrower or groups of borrowers. Limits are set as a percentage of capital fund.

Credit Risk

Credit risk is the risk that the Bank will incur losses because its obligors failed to discharge their contractual obligations. This risk may further be classified as pre-settlement risk (PSR) and settlement risk (SR). PSR is the risk that the obligor will fail to meet the terms of the contract and default before the contract's settlement date, prematurely ending the contract. SR, on the other hand, is the risk that the obligor will fail to deliver the terms of a contract with the Bank at the time of settlement. SR can be the risk associated with default at settlement and any timing differences in settlement between the Bank and the counterparty. The management therefore carefully assesses and manages its exposures to both types of credit risk.

The Bank has established a credit risk management policy incorporated in its Credit Manual. It is the policy of the Bank to maintain a well-diversified portfolio that gives no or little cause for concern as to unexpected losses. The management of risk is fundamental to the financial soundness and integrity of the Bank. Its risk management philosophy is that all risks taken must be identified, measured, monitored and managed within a robust risk management framework, and that returns must be commensurate with the risk taken. The risk parameters for accepting credit risk are clearly defined and complemented by policies and processes to ensure that the Bank maintains a well-diversified and high quality credit portfolio.

In considering a credit proposal, a credit process shall provide sufficient information to enable a comprehensive assessment of the true risk profile of the credit applicant. The credit policy provides, establishes and defines credit limits and approving authorities for individual or group of related or connected counterparties.

To enable the Bank to measure, report, analyze and manage its credit risk exposure, all credit cases are to be rated in accordance with approved Credit Rating Scale. The credit rating system will provide an objective and consistent measure of risks across business units.

It attempts to:

1. provide an indicator of bank-wide loan portfolio quality;
2. calibrate credit risks at borrower level thereby enhancing asset quality selection;
3. quantify credit risks at portfolio level and monitor/optimize portfolio mix through portfolio management;
4. promote asset quality distribution analysis and attendant migration strategies;
5. provide a warning system to minimize delinquent accounts; and
6. provide a formalized basis to ascertain adequacy of provisions tiered to asset quality.



An overview of the Bank's credit rating scale (CRS) follows:

Pass				Special Mention	Substandard	Doubtful	Loss
1	2	3	4	5	6	7	8

Pass accounts are rated 1 to 4 while Classified accounts are rated 5 to 8. Ratings of 1 to 4 (1 being the best credit rating) define the risk levels of borrowers and guarantors that offer an acceptable level of risk.

Credit rating is determined by objectively assessing the major risk areas and other factors (such as business risk, financial risk, management risk, access to capital and account track record) and making an overall judgment on the likelihood of the bank getting repaid in full. Credit rating definitions follow:

Credit Rating 1 (Exceptional) - A credit supported by exceptional financial strength, stability and liquidity. The borrower or guarantor can be expected to absorb severe market disturbances with little or no difficulty.

Credit Rating 2 (Superior) - A credit supported by superior financial strength, stability and liquidity. The borrower or guarantor can be expected to successfully weather occasional major market disturbances.

Credit Rating 3 (Good) - A credit supported by good overall financial strength and stability. The borrower or guarantor has sufficient financial strength and stability to weather short-term market disturbances or financial volatility.

Credit Rating 4 (Adequate) - A credit supported by adequate overall financial strength and stability. The borrower or guarantor is a creditworthy entity that may have difficulty absorbing short-term market disturbances or financial volatility.

Credit Rating 5 (Special Mention) - A credit that has potential weakness that deserves close attention. This is a special mention credit that has potential weakness that deserves close attention. If left uncorrected, the potential weakness may result in deterioration of the repayment prospects of the asset. Special Mention assets do not present sufficient risk to warrant adverse classification.

Credit Rating 6 (Substandard) - Paying capacity of the obligor is impaired. The credit may not be adequately protected by the current worth or value of security pledged. This is a substandard credit that has a well-defined weakness that jeopardizes the liquidation of the debt. Such weakness may include adverse trends or developments of a financial, managerial, economic or political nature, or important collateral deficiencies. Further, a Substandard asset is characterized by distinct possibility that the bank will sustain some loss if such weakness(es) or deficiency(ies) is not corrected.

Credit Rating 7 (Doubtful) - A credit that, on the basis of existing facts, conditions and values, has critical weaknesses that make collection or collection in full improbable. This is a doubtful credit and the possibility of loss is extremely high. However, because of reasonably specific pending events, which may work to strengthen the asset, the possibility of loss, although high, is not yet determinable as to amount or timing.



Credit Rating 8 (Loss) - A credit that is considered uncollectible or of such little value that its continuance as a booked asset is unwarranted. This credit is classified as loss but this does not mean that the asset has no eventual recovery or salvage value. Rather, it is not practical or desirable to defer writing off the asset, even though partial recovery may be realized in the future. A loss should be taken in the period in which the asset, or a portion of the asset, is determined to be uncollectible.

Credit-related commitment risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of letters of credit. They expose the Bank to similar risks from loans and these are mitigated by the same control processes and policies.

Credit risk exposure

An analysis of the maximum exposure to credit risk (net of allowance for impairment and credit losses) relating to on-and-off-balance sheet credit risk exposures without taking into account of any collateral held or other credit enhancements is shown below (in thousands):

	2010	2009
Loans and receivables:		
Due from BSP	₱1,721,864	₱1,828,356
Due from other banks	15,826	24,737
Interbank loans receivable and SPURA	491,526	721,989
Receivable from customers:		
Corporate	74,035	72,722
Consumer	3,166	3,914
	77,201	76,636
Accounts receivable	9,671	19,048
Accrued interest receivable	3,244	2,740
	2,319,332	2,673,506
AFS investments (Note 6):		
Quoted government debt securities	59,239	100,308
Equity securities:		
Quoted	1,015	978
Unquoted	10,320	10,320
	70,574	111,606
Total	2,389,906	2,785,112
Commitments (Note 23)	-	12,000
	₱2,389,906	₱2,797,112

Concentration risk

While concentration of credit risks are inherent in the Bank's business and cannot be totally eliminated, they are limited and reduced through the Bank's risk control and diversification strategies. Safeguarding against credit risk concentrations is an important component of the Bank's risk management system.

The BOD of the Bank is responsible for establishing and monitoring compliance with policies governing large exposures and credit risk concentrations of the Bank. The BOD reviews these policies regularly (at least annually) to ensure that they remain adequate and appropriate for the Bank. Subsequent changes to the established policies are approved by the BOD.



Concentration of risks of financial assets with credit risk exposure

The Bank monitors concentration of counterparty credit risk by industry. An analysis of concentrations of credit risk at the statement of financial position date is shown below (in thousands):

	2010			
	Loans and receivables	Loans and advances to banks*	AFS investments	Total
Financial intermediaries	₱-	₱2,229,216	₱-	₱2,229,216
Manufacturing	67,708	-	-	67,708
Government	-	-	59,239	59,239
Other community, social and personal activities	12,910	-	-	12,910
Real estate, renting and business activities	325	-	-	325
Others	9,173	-	11,335	20,508
	₱90,116	₱2,229,216	₱70,574	₱2,389,906

* Consist of Due from BSP, Due from other banks and Interbank loans receivable and SPURA.

	2009				
	Loans and receivables	Loans and advances to banks*	AFS investments	Commitments	Total
Financial intermediaries	₱-	₱2,575,082	₱-	₱-	₱2,575,082
Manufacturing	75,652	-	-	-	75,652
Government	-	-	100,308	-	100,308
Other community, social and personal activities	3,610	-	-	-	3,610
Real estate, renting and business activities	2,363	-	-	-	2,363
Others	16,799	-	11,298	12,000	40,097
	₱98,424	₱2,575,082	₱111,606	₱12,000	₱2,797,112

* Consist of Due from BSP, Due from other banks and Interbank loans receivable and SPURA.

Collateral and other credit risk mitigation

The Bank holds collateral against loans and receivables in the form of real estate mortgages, shares of stocks, deposits and other registered securities over assets.

Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Bank is not allowed to sell or pledge collateral held for reverse repurchase agreements. Collateral is usually not held against investment securities, and no such collateral was held as of December 31, 2010 and 2009.

As of December 31, 2010 and 2009, loans and receivables, inclusive of the capitalized interest, represent mainly the balance of the ₱1.4 billion reinstated loans amounting to ₱768.2 million and ₱880.0 million as of December 31, 2010 and 2009, respectively, such reinstated loans were fully provided with allowance (Note 7).



Credit quality of financial assets

The tables below show credit quality by class of financial assets based on the Bank's rating system (in thousands):

	2010					Total
	Neither past due nor impaired		Impaired			
	Pass	Special Mention	Substandard	Doubtful	Loss	
Loans and receivables:						
Due from BSP	₱1,721,864	₱-	₱-	₱-	-	₱1,721,864
Due from other banks	15,826	-	-	-	-	15,826
Interbank loans receivables and SPURA	491,526	-	-	-	-	491,526
Receivables from customers:						
Corporate	77,130	-	-	-	330,410	407,540
Consumer	3,166	-	-	-	9,478	12,644
Others	-	-	-	-	465,285	465,285
	80,296	-	-	-	805,173	885,469
Accounts receivable	9,671	-	-	-	12,598	22,269
Accrued interest receivable	3,244	-	-	-	72,194	75,438
	2,322,427	-	-	-	889,965	3,212,392
AFS investments:						
Quoted government debt securities	59,239	-	-	-	-	59,239
Equity securities:						
Quoted	1,015	-	-	-	3,980	4,995
Unquoted	10,320	-	-	-	13,669	23,989
	70,574	-	-	-	17,649	88,223
	2,393,001	-	-	-	907,614	3,300,615
Less allowance for impairment and credit losses	3,095	-	-	-	903,607	906,702
Unearned discounts and capitalized interest	-	-	-	-	4,007	4,007
	₱2,389,906	₱-	₱-	₱-	₱-	₱2,389,906

	2009					Total
	Neither past due nor impaired		Impaired			
	Pass	Special Mention	Substandard	Doubtful	Loss	
Loans and receivables:						
Due from BSP	₱1,828,356	₱-	₱-	₱-	₱-	₱1,828,356
Due from other banks	24,737	-	-	-	-	24,737
Interbank loans receivables and SPURA	721,989	-	-	-	-	721,989
Receivables from customers:						
Corporate	87,258	-	125,083	-	298,934	511,275
Consumer	3,914	-	-	-	9,953	13,867
Others	-	-	299,827	-	170,209	470,036
	91,172	-	424,910	-	479,096	995,178
Accounts receivable	38	-	-	-	30,303	30,341
Accrued interest receivable	7,214	-	10,183	-	57,537	74,934
	2,673,506	-	435,093	-	566,936	3,675,535
AFS investments:						
Quoted government debt securities	100,308	-	-	-	-	100,308
Equity securities:						
Quoted	978	-	-	-	3,980	4,958
Unquoted	10,320	-	-	-	878	11,198
	111,606	-	-	-	4,858	116,464
	2,785,112	-	-	-	571,794	3,791,999
Less allowance for impairment and credit losses	-	-	403,759	-	569,802	973,561
Unearned discounts and capitalized interest	-	-	31,334	-	1,992	33,326
	₱2,785,112	₱-	₱-	₱-	₱-	₱2,785,112



Set out below is an analysis of the Bank's individually impaired loans and receivables (gross of allowance for impairment and credit losses) by risk grade (in thousands).

	2010	2009
CRS 8 (Loss)	₱889,965	₱566,936
CRS 6 (Substandard)	–	435,093
	₱889,965	₱1,002,029

As of December 31, 2010 and 2009, impaired loans and receivables of the Bank secured by collaterals amounted to ₱632.3 million and ₱594.1 million, respectively. The aggregate fair values of collaterals pertaining to the aggregate amount of impaired loans and receivables amounted to ₱705.7 million and ₱684.9 million, as of December 31, 2010 and 2009, respectively.

Impaired loans and receivables and investment securities

Impaired loans and receivables and investment securities are those which the Bank determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory note and securities agreements. These loans are graded 6 to 8 following the Bank's CRS.

Past due but not impaired loans and receivables and investment securities

Loans and receivables and investment securities are considered past due but not impaired if contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available and/or status of collection of amounts owed to the Bank. As of December 31, 2010 and 2009, the Bank has no past due but not impaired loans and receivables and investment securities.

As of December 31, 2010 and 2009, the Bank's restructured loans amounted to ₱44.2 million and ₱126.6 million, respectively

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they fall due without incurring unacceptable losses or costs.

A Liquidity Risk Management Policy has been established to govern the management of liquidity risk of the Bank. The Bank's Management Committee is responsible for the overall management and oversight of the Bank's liquidity profile, while the day to day management of liquidity is assumed by the Treasury Department.

A cash flow mismatch analysis is used to measure Bank's liquidity. A maturity ladder is constructed to determine the cumulative net excess or deficit of funds at appropriate time bands. Net cumulative outflow limits have been put in place to ensure that the Bank's funding requirements are not strained.



Liquidity is monitored by the Bank on a daily basis and under stressed situations. The table below shows the maturity profile of the financial assets and liabilities, based on its internal methodology that manages liquidity based on contractual undiscounted cash flows (in thousands):

	2010				Total
	On demand	1 to 6 Months	6 to 12 Months	Beyond 1 year	
Financial Assets					
Loans and receivables:					
COCI	₱2,708	₱-	₱-	₱-	₱2,708
Due from BSP	1,726,238	-	-	-	1,726,238
Due from other banks	15,869	-	-	-	15,869
Interbank loans receivables and SPURA	-	491,689	-	-	491,689
Receivables from customers:					
Corporate	-	69,806	1,585	16,427	87,818
Consumer	-	480	480	4,561	5,521
Accounts receivable	-	70,286	2,065	20,988	93,339
Accrued interest receivable	-	9,671	-	-	9,671
	-	3,244	-	-	3,244
	1,744,815	574,890	2,065	20,988	2,342,758
AFS investments:					
Quoted government debt securities	-	1,900	1,900	74,754	78,554
Equity securities:					
Quoted	-	-	-	1,015	1,015
Unquoted	-	-	-	10,320	10,320
	-	1,900	1,900	86,089	89,889
Total undiscounted financial assets	1,744,815	576,790	3,965	107,077	2,432,647
Financial Liabilities					
Deposit liabilities:					
Demand	1,484,928	-	-	-	1,484,928
Savings	69,574	-	-	-	69,574
Time	-	145	-	-	145
	1,554,502	145	-	-	1,554,647
Due to BSP	131	-	-	-	131
Bills payable	-	50,421	-	-	50,421
Manager's checks	-	16,819	-	-	16,819
Accrued interest	21	-	-	-	21
Other liabilities:					
Accounts payable	-	56,017	-	-	56,017
Accrued other expense payable	-	-	2,858	-	2,858
Total undiscounted financial liabilities	1,554,654	123,402	2,858	-	1,680,914
Net undiscounted financial assets (liabilities)	₱190,161	₱453,388	₱1,107	₱107,077	₱751,733

	2009				Total
	On demand	1 to 6 Months	6 to 12 Months	Beyond 1 year	
Financial Assets					
Loans and receivables:					
COCI	₱7,458	₱-	₱-	₱-	₱7,458
Due from BSP	1,831,701	-	-	-	1,831,701
Due from other banks	24,795	-	-	-	24,795
Interbank loans receivables and SPURA	-	722,295	-	-	722,295
Receivables from customers:					
Corporate	-	73,200	387	36,484	110,071
Consumer	-	220	226	5,063	5,509
Accounts receivable	-	73,420	613	41,547	115,580
Accrued interest receivable	-	19,048	-	-	19,048
	-	2,740	-	-	2,740
	1,863,954	817,503	613	41,547	2,723,617

(Forward)



	2009				Total
	On demand	1 to 6 Months	6 to 12 Months	Beyond 1 year	
AFS investments:					
Quoted government debt securities	–	3,082	3,168	118,767	125,017
Equity securities:					
Quoted	–	–	–	978	978
Unquoted	–	–	–	10,320	10,320
	–	3,082	3,168	130,065	136,315
Total undiscounted financial assets	1,863,954	820,585	3,781	171,612	2,859,932
Financial Liabilities					
Deposit liabilities:					
Demand	2,099,549	–	–	–	2,099,549
Savings	61,408	–	–	–	61,408
Time	–	153	–	–	153
	2,160,957	153	–	–	2,161,110
Due to BSP	–	–	–	–	–
Bills payable	–	41,584	–	–	41,584
Manager's checks	–	5,544	–	–	5,544
Accrued interest	20	–	–	–	20
Other liabilities:					
Accounts payable	–	20,313	–	–	20,313
Accrued other expense payable	–	–	10,025	–	10,025
Total undiscounted financial liabilities	2,160,977	67,594	10,025	–	2,238,596
Net undiscounted financial assets (liabilities)	(₱297,023)	₱752,991	(₱6,244)	₱171,612	₱621,336

Market Risk

Market risk is the potential loss that may arise from decrease in earning due to decline in prices or present value of future cash flows from financial instruments. The value of these financial instruments may change as a result of changes in interest rates, foreign exchange rates, equity prices and other market changes.

The Bank manages market risk by ensuring that trading activities are conducted in a sound and prudent manner. The basis of sound trading practice is the positive control of recognizable risk, the ability to measure all the Bank's exposures and ensure that the size and mix of such risks are justified and kept within the authorized limits of the UOB Group. The Asset Liability Committee (ALCO), composed of senior executives of the Parent Bank, is the decision-making body for the management of all market risks related to asset/liability management of the UOB Group.

The Risk Management Unit (RMU) performs daily market risk analyses to ensure compliance with the Bank's policies and procedures and makes recommendations based on such analyses.

The Treasury Department of the Bank manages asset/liability risks arising from both normal banking operations and from trading operations in financial markets. The Treasury Department is assigned with risk limits by the UOB Group Market Risk Management, Head Office.

Interest rate risk

The Bank follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.



As of December 31, 2010 and 2009, 85.9% and 99.6% of the Bank's total loan portfolio, respectively, are comprised of floating rate loans which are repriced periodically by reference to the Bank's internal cost of funds or contractual reference basis to the client. The Bank, in keeping with banking industry practice, aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transactional banking requirements of customers. Demand accounts, which as of December 31, 2010 and 2009 accounted for 95.5% and 97.2% of total deposits, respectively, do not pay interest except for the demand account product that pays a rate of interest equal to that payable on regular savings accounts of the Bank. Rates on savings accounts and time deposit accounts, which constituted 4.5% and 0.01% and 2.8% and 0.01%, respectively, of total deposits as of December 31, 2010 and 2009, respectively, are set by different criteria. Peso savings account rates are set by reference to prevailing market rate of the same product category. Peso fixed term deposit products (such as Time deposits) are priced with reference to prevailing rates of Philippine Treasury Bills and other money market instruments of similar maturities.

US Dollar Time deposit rates are priced by reference to Singapore Interbank Offered Rate (SIBOR) and other benchmark USD rates in Asian and international money markets of similar maturities.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's net interest income and equity.

	2010			
	Impact of Changes in Interest Rates on Net Interest Income*			
	Increase (Decrease) in Basis Points			
	-100	-50	+50	+100
Change on net interest income (in millions)				
Loans and receivables	(₱0.13)	(₱0.06)	₱0.06	₱0.13
Deposit liabilities	₱0.24	₱0.12	(₱0.12)	(₱0.24)
	Impact of Changes in Interest Rates on Equity**			
	Increase (Decrease) in Basis Points			
	-100	-50	+50	+100
Change on equity (in millions)				
AFS investments	₱2.12	₱1.05	(₱1.03)	(₱2.04)

* There is no other impact on the Bank's equity other than those already affecting the profit and loss.

** The impact on the Bank's equity already excludes the impact on transactions affecting the profit and loss.

	2009			
	Impact of Changes in Interest Rates on Net Interest Income*			
	Increase (Decrease) in Basis Points			
	-100	-50	+50	+100
Change on net interest income (in millions)				
Loans and receivables	(₱0.16)	(₱0.08)	₱0.08	₱0.16
Deposit liabilities	₱0.23	₱0.12	(₱0.12)	(₱0.23)



	Impact of Changes in Interest Rates on Equity**			
	Increase (Decrease) in Basis Points			
	-100	-50	+50	+100
Change on equity (in millions)				
AFS investments	₱3.18	₱1.58	(₱1.55)	(₱3.07)

* There is no other impact on the Bank's equity other than those already affecting the profit and loss.

** The impact on the Bank's equity already excludes the impact on transactions affecting the profit and loss.

Foreign currency risk

Foreign currency risk is the risk to earnings or capital arising from changes in foreign exchange rates to which the Bank is exposed because of its foreign currency-denominated financial instruments.

Foreign currency deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match its foreign currency assets with foreign currency liabilities held in the FCDU. In addition, the BSP requires a 30.0% liquidity reserve on all foreign currency liabilities held in the FCDU.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Bank believes that its profile of foreign currency exposure on its assets and liabilities similar to other financial institutions that engage in the same business is within conservative limits.

The Bank's exposure to foreign currency risk as of December 31, 2010 and 2009 as reported to the BSP represents a negative position of US\$0.44 million and US\$0.43 million, respectively.

The following table summarizes the Bank's exposure to foreign exchange risk. Bank's assets and liabilities at carrying amounts, categorized by currency, follow:

	2010			2009		
	USD	Others	Total	USD	Others	Total
Assets						
Due from other banks	₱2,152,763	₱22,841	₱2,175,604	₱2,968,535	₱33,264	₱3,001,799
Other assets	2,077,315	-	2,077,315	2,189,141	-	2,189,141
	4,230,078	22,841	4,252,919	5,157,676	33,264	5,190,940
Liabilities						
Bills payable	28,496,000	-	28,496,000	41,580,000	-	41,580,000
Accrued taxes and interest	2,148	-	2,148	3,234	-	3,234
Other liabilities	20,210	-	20,210	92	-	92
	28,518,358	-	28,518,358	41,583,326	-	41,583,326
Net Exposure	(₱24,288,280)	₱22,841	(₱24,265,439)	(₱36,425,650)	₱33,264	(₱36,392,386)

The Bank's outstanding foreign currency spot transactions in 2010 (in equivalent peso amounts) amounted to nil and ₱23.2 million (sold) in 2010 and 2009, respectively.



The table below indicates the currencies to which the Bank had substantial exposures. The result calculates the effect of a reasonable change in the spot rates on currencies with significant exposures, when all other variables are held constant. Negative values in the table reflect a potential reduction in income and equity while a positive amount reflects a potential increase.

Currency	2010		2009	
	Change in Foreign exchange rate	Effect on income before tax	Change in Foreign exchange rate	Effect on income before tax
USD	2% (2%)	(₱485,766) 485,766	2% (2%)	(₱728,512) 728,512
Others	1% (1%)	228 (228)	1% (1%)	333 (333)

There is no other impact on the Bank's equity other than those affecting the income before tax.

5. Fair Value Measurement and Categories of Financial Assets and Liabilities

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are:

Cash and cash equivalents (includes COCI, due from BSP, due from other banks, interbank loans and SPURA)

Carrying amounts approximate fair values given the short-term nature of the instruments.

Receivables from customers

Fair values of receivables from customers are estimated using discounted cash flow methodology using current interest rates.

Accounts receivable and accrued interest receivable

Fair values approximate their carrying amounts.

Debt securities

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

Equity securities

For publicly traded equity securities, fair values are based on quoted prices published in markets. For unquoted equity securities, fair value could not be reliably determined due to the unpredictable timing of future cash flows and the lack of suitable methods of arriving at a reliable fair value. These are carried at original cost less allowance for impairment loss.

Deposit and other liabilities

Fair values approximate carrying amounts given the short-term maturities of these liabilities.



The following table summarizes the carrying amounts and fair values of the financial assets and liabilities of the Bank as of December 31, 2010 and 2009 (in thousands):

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and Receivables:				
COCI	₱2,708	₱2,708	₱7,458	₱7,458
Due from BSP	1,721,864	1,721,864	1,828,356	1,828,356
Due from other banks	15,826	15,826	24,737	24,737
Interbank loans receivable and SPURA	491,526	491,526	721,989	721,989
Receivable from customers:				
Corporate	74,035	74,301	72,722	73,114
Consumer	3,166	3,150	3,914	3,892
	77,201	77,451	76,636	77,006
Accounts receivable	9,671	9,671	19,048	19,048
Accrued interest receivable	3,244	3,244	2,740	2,740
	2,322,040	2,322,290	2,680,964	2,681,334
AFS investments:				
Quoted government debt securities	59,239	59,239	100,308	100,308
Equity securities:				
Quoted	1,015	1,015	978	978
Unquoted	10,320	10,320	10,320	10,320
	70,574	70,574	111,606	111,606
Total financial assets	₱2,392,614	₱2,392,864	₱2,792,570	₱2,792,940
Financial Liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Demand	₱1,484,928	₱1,484,928	₱2,099,549	₱2,099,549
Savings	69,574	69,574	61,408	61,408
Time	145	145	153	153
	1,554,647	1,554,647	2,161,110	2,161,110
Due to BSP	131	131	–	–
Bills payable	50,416	50,416	41,580	41,580
Manager's checks	16,819	16,819	5,544	5,544
Accrued interest	21	21	20	20
Other liabilities:				
Accounts payable	56,017	56,017	20,313	20,313
Accrued other expenses payable	2,858	2,858	10,025	10,025
Total financial liabilities	₱1,680,909	1,680,909	₱2,238,592	₱2,238,592

The following table shows financial instruments recognized at fair value, analyzed among those whose fair value is based on (in thousands):

- Quoted market prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that is not based on observable market data (unobservable inputs) (Level 3).



The fair values of the financial instruments presented below are classified under Level 1. As of December 31, 2010 and 2009, the Bank has no financial instruments under Level 2 and Level 3 category.

	2010	2009
AFS investments:		
Quoted government debt securities	₱59,239	₱100,308
Quoted equity securities	1,015	978
	₱60,254	₱101,286

6. Trading and Investment Securities

This account consists of the following AFS investments:

	2010	2009
Quoted government debt securities	₱59,239,387	₱100,308,169
Equity securities:		
Quoted	1,014,620	978,487
Unquoted	10,319,741	10,319,741
	₱70,573,748	₱111,606,397

Debt securities consist of government securities bearing annual interest rates ranging from 5.9% to 8.0% and from 5.9% to 6.3% in 2010 and 2009, respectively.

Unquoted equity securities are investments in which the Bank has less than 20.0% in equity holdings and are carried at cost less allowance for impairment losses since its fair value cannot be reliably estimated. The Bank will dispose these investments depending on the liquidity requirements but the primary consideration would be the profit out of the sale or disposal.

The movements in the net unrealized loss on AFS investments of the Bank follow:

	2010	2009
Balance at January 1	₱263,578	₱4,168,029
Changes in fair value recognized in equity	(1,574,663)	(13,265,029)
Net gain from sale taken to profit or loss	1,880,368	13,340,578
Provision for impairment losses	-	(3,980,000)
Net change during the year	305,705	(3,904,451)
Balance at December 31 (Note 20)	₱569,283	₱263,578

Interest income on investment securities consists of:

	2010	2009
AFS investments	₱3,522,804	₱11,013,819
Financial assets at FVPL	1,690,650	-
	₱5,213,454	₱11,013,819



Trading and securities gains on investment securities consist of:

	2010	2009
AFS investments	₱1,880,368	₱13,340,578
Financial assets at FVPL	90,146	-
	₱1,970,514	₱13,340,578

As of December 31, 2010 and 2009, there are no outstanding financial assets at FVPL.

7. Loans and Receivables

This account consists of:

	2010	2009
Receivables from customers:		
Corporate	₱407,540,485	₱511,275,134
Consumer	12,643,977	13,866,956
Others	465,284,661	470,035,710
	885,469,123	995,177,800
Less unearned discounts and capitalized interest	4,007,480	33,325,736
	881,461,643	961,852,064
Accrued interest receivable	75,438,199	74,933,859
Accounts receivable	22,268,540	30,340,998
	979,168,382	1,067,126,921
Less allowance for impairment and credit losses (Note 10)	889,052,753	968,703,289
	₱90,115,629	₱98,423,632

The classification of receivables from customers is based on the asset size of the borrower at the time the loan was granted. Corporate loans pertain to loans granted to large-sized corporations, consumer loans for individual and/or retail businesses and others or commercial loans for small and medium-sized corporations.

Receivables from customers, inclusive of the capitalized interest, represent mainly the balance of ₱1.4 billion reinstated loans amounting to ₱768.2 million and ₱880.0 million, respectively, as of December 31, 2010 and 2009. Such ₱1.4 billion reinstated loans, which was fully provided with allowance, represent the NPLs which the Bank wrote-off and transferred to its former shareholders in consideration of the agreement of the latter to the reduction of their ownership and capital restructuring of the Bank.

In May 2001, the ₱1.4 billion reinstated loans, with its net book value of ₱964.0 million, were reinstated in compliance with MB Resolution No. 305 dated February 23, 2000, which directed the Bank to:

- a. reinstate the written-off loans;
- b. take positive steps to recover the ₱1.4 billion assets transferred to former shareholders; and
- c. remit to the PDIC the excess financial assistance equivalent to the net realizable value of about ₱964.0 million of the ₱1.4 billion assets in exchange for a corresponding amount from the ₱1.9 billion sold to the PDIC in accordance with the 1999 Rehabilitation Plan.



Under the Bank's 2002 Rehabilitation Plan, the Bank requested the MB of the BSP to withdraw its directives as stated in (b) above. The BSP, in its MB Resolution No. 1821 dated December 11, 2003, decided to reconsider the said request, subject to certain conditions. This mandate from the BSP effectively resulted from the reinstatement of the loans in the books of the Banks and payment of the excess financial assistance equivalent to the proceeds or collections, if any, from the reinstated loan in favor of PDIC in settlement of the excess financial assistance.

UOBP entered into a MOA with PDIC, in which the accumulated proceeds or collections pertaining to the ₱1.4 billion reinstated loans would be remitted to the Escrow Account established and managed by PDIC. The MOA expired on December 13, 2010. As of December 31, 2010, the PDIC have not yet exercised its option to selectively demand the assignment of the remaining assets in its favor, which is a requirement under the agreement for the discharge of the Bank on its obligation to transfer the assets to PDIC. In the meantime, based on the terms of the agreement in the MOA which expired on December 13, 2010, all collections from the loans are now being retained by the Bank.

The interest income on loans and receivables consists mainly of receivables from customers amounting to ₱55.1 million and ₱75.3 million in 2010 and 2009, respectively, of which ₱48.1 million and ₱59.4 million, respectively, pertains to interest income on non-performing loans, which is recognized as revenue upon establishing a high certainty of flow of benefits to the Bank.

BSP Reporting

As of December 31, 2010 and 2009, 85.9% and 99.7% of the total loans receivables of the Bank, respectively, are subject to periodic interest repricing. In 2010 and 2009, remaining peso-denominated loans earn annual fixed interest rates ranging from 4.0% to 8.6% and from 6.0% to 8.6%, respectively, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 10.0% to 12.0%.

The following table shows information relating to receivables from customers by collateral as of December 31, 2010 and 2009:

	2010		2009	
	Amount	%	Amount	%
Secured by:				
Real estate mortgage	₱613,644,175	69.3	₱577,936,131	58.1
Shares of stock	28,709,714	3.2	28,709,714	2.9
	642,353,889	72.5	606,645,845	61.0
Unsecured	243,115,234	27.5	388,531,955	39.0
	₱885,469,123	100.0	₱995,177,800	100.0

Corporate restructured loans as of December 31, 2010 and 2009 amounted to ₱44.2 million and ₱126.6 million, respectively.



Breakdown of restructured receivables from customers by class are shown below:

	2010	2009
Corporate banking	₱42,679,368	₱124,680,191
Consumer lending	1,471,770	1,876,807
	₱44,151,138	₱126,556,998

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears. In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.0% of the total receivable balance.

Receivables are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations and future payments appear assured.

Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments required by the BSP to exclude from nonperforming classification those loans that are fully provided with allowance, provided that interest on said loans shall not be accrued.

NPLs fully covered by allowance for impairment and credit losses as of December 31, 2010 and 2009 amounted to ₱804.9 million and ₱902.1 million, respectively.

8. Property and Equipment

The composition of and movements in this account follow:

	2010		Total
	Furniture and Equipment	Leasehold Improvements	
Cost			
Balance at beginning of year	₱109,233,311	₱16,290,934	₱125,524,245
Additions	4,315,885	-	4,315,885
Disposals	(3,626,593)	-	(3,626,593)
Balance at end of year	109,922,603	16,290,934	126,213,537

(Forward)



	2010		
	Furniture and Equipment	Leasehold Improvements	Total
Accumulated depreciation and amortization			
Balance at beginning of year	100,825,820	15,772,755	116,598,575
Depreciation and amortization	2,589,651	292,293	2,881,944
Disposals	(3,592,642)	–	(3,592,642)
Reclassification	592,317	–	592,317
Balance at end of year	100,415,146	16,065,048	116,480,194
Net book value at end of year	₱9,507,457	₱225,886	₱9,733,343

	2009		
	Furniture and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	₱110,567,610	₱16,290,934	₱126,858,544
Additions	3,034,414	–	3,034,414
Disposals	(4,368,713)	–	(4,368,713)
Balance at end of year	109,233,311	16,290,934	125,524,245
Accumulated depreciation and amortization			
Balance at beginning of year	101,708,642	15,480,462	117,189,104
Depreciation and amortization	2,851,899	292,293	3,144,192
Disposals	(4,300,139)	–	(4,300,139)
Reclassification	565,418	–	565,418
Balance at end of year	100,825,820	15,772,755	116,598,575
Net book value at end of year	₱8,407,491	₱518,179	₱8,925,670

As of December 31, 2010 and 2009, the Bank has fully depreciated property and equipment that are still in use with original cost amounting to ₱72.5 million and ₱102.4 million, respectively.

9. Other Assets

This account consists of:

	2010	2009
Foreclosed properties	₱55,144,876	₱86,484,779
Prepaid expenses	28,234,244	238,021,429
Rights on real properties	14,175,000	14,175,000
Rental deposits	3,002,130	3,482,130
Miscellaneous assets	11,033,438	13,706,408
	111,589,688	355,869,746
Less allowance for impairment and credit losses (Note 10)	82,545,087	139,182,494
	₱29,044,601	₱216,687,252

Foreclosed properties pertain to the ROPA which are held by the Bank for PDIC. These properties are part of the ₱1.4 billion reinstated loans that were foreclosed and fully provided with allowance. Upon sale of these properties, the proceeds will be deposited to the Escrow Account established and maintained by PDIC.



As of December 31, 2010 and 2009, prepaid expenses include creditable withholding taxes paid by the Bank relating to the transfer of ROPA to the SPV amounting to ₱13.5 million and ₱190.1 million, net of allowance for impairment and credit losses of ₱2.2 million and ₱35.7 million, respectively.

Rights on real properties represent the amount fully paid by the Bank to Educational Research and Development Assistance Foundation, Inc. for the purchase of the Manila Harbor property. This account is fully provided with allowance.

Miscellaneous assets include a property with original cost of ₱10.9 million as of December 31, 2010 and 2009, respectively. This property was acquired in 1996 as a future branch site. However, the building where the unit is located was subsequently foreclosed and the title to the property is currently under litigation. This property is fully provided with allowance.

10. Allowance for Impairment and Credit Losses

Changes in the allowance for impairment and credit losses follow:

	2010	2009
Balance at beginning of year:		
Loans and receivables	₱968,703,289	₱989,014,380
AFS investments	4,858,055	878,055
Other assets	139,182,494	167,489,928
	1,112,743,838	1,157,382,363
Reversal of allowance due to collection	(87,661,621)	(22,627,330)
Reversal of allowance due to sale of assets	(43,193,303)	(21,942,527)
Provision (reversal) during the year	(17,744,404)	3,980,000
Allowance on accounts written off	(480,000)	(4,048,668)
Others	25,582,770	-
	(123,496,558)	(44,638,525)
Balance at end of year:		
Loans and receivables (Note 7)	889,052,753	968,703,289
AFS investments	17,649,440	4,858,055
Other assets (Note 9)	82,545,087	139,182,494
	₱989,247,280	₱1,112,743,838

Movement in the allowance for impairment and credit losses under 'Others' pertains to the contra account that was credited related to the payment-in-kind received by the Bank, which represents shares of stock amounting to ₱12.8 million and a new loan amounting also to ₱12.8 million, for a total amount of ₱25.6 million. The payment-in-kind and the new loan both represent interests from the restructured syndicated loan. This syndicated loan is part of reinstated loan of ₱1.4 billion of PDIC (Note 7), and having no prospect of being realized and collected as of the statement of financial position date, the amounts were fully provided with allowance as mandated by BSP.



A reconciliation of the allowance for impairment and credit losses on loans and receivables by class follows:

2010						
Receivables from customers						
	Corporate Banking	Consumer Lending	Others	Accounts receivable	Accrued interest receivable	Total
At January 1, 2010	P405,227,767	P9,952,765	P470,035,709	P11,293,305	P72,193,743	P968,703,289
Reversal during the year	(10,694,404)	-	-	-	-	(10,694,404)
Transfers/others	(65,035,267)	(474,439)	(4,751,048)	1,304,622	-	(62,085,267)
At December 31, 2010	P329,498,056	P9,478,326	P465,284,661	P12,597,927	P72,193,743	P889,052,753
Individual impairment	P326,402,682	P9,478,326	P465,284,661	P12,597,927	P72,193,743	P885,957,339
Collective impairment	3,095,414	-	-	-	-	3,095,414
	P329,498,056	P9,478,326	P465,284,661	P12,597,927	P72,193,743	P889,052,753
Gross amount of loans and receivables, individually determined to be impaired	P407,540,485	P12,643,977	P465,284,661	P12,597,927	P72,193,743	P970,260,793

2009						
Receivables from customers						
	Corporate Banking	Consumer Lending	Others	Accounts receivable	Accrued interest receivable	Total
At January 1, 2009	P270,619,925	P11,964,470	P473,641,679	P163,978,260	P68,810,046	P989,014,380
Transfers/others	134,607,842	(2,011,705)	(3,605,970)	(152,684,955)	3,383,697	(20,311,091)
At December 31, 2009	P405,227,767	P9,952,765	P470,035,709	P11,293,305	P72,193,743	P968,703,289
Individual impairment	P402,132,353	P9,952,765	P470,035,709	P11,293,305	P72,193,743	P965,607,875
Collective impairment	3,095,414	-	-	-	-	3,095,414
	P405,227,767	P9,952,765	P470,035,709	P11,293,305	P72,193,743	P968,703,289
Gross amount of loans and receivables, individually determined to be impaired	P511,275,134	P13,866,956	P470,035,710	P11,293,305	P72,193,743	P1,078,664,848

11. Deposit Liabilities

Under existing BSP regulations, non-FCDU deposit liabilities are subject to liquidity reserves equivalent to 2.0% and statutory reserves equivalent to 4.0% as of December 31, 2010 and 2009, respectively.

Available reserves as of December 31, 2010 and 2009 as reported to the BSP follow:

	2010	2009
COCI	P2,708,104	P7,458,299
Due from BSP	1,721,864,049	1,828,356,148
	P1,724,572,153	P1,835,814,447

The Bank is in compliance with such regulations as of December 31, 2010 and 2009.



As of December 31, 2010 and 2009, 1.5% and 1.1% of the total deposit liabilities of the Bank, respectively, are subject to periodic interest repricing. Remaining deposit liabilities earn annual fixed interest rates ranging from 1.0% to 1.5% in 2010 and 2009.

Interest on deposit liabilities consists of:

	2010	2009
Demand	₱29,347,387	₱10,130,385
Savings	1,166,330	453,588
Time	364	44,422
	₱30,514,081	₱10,628,395

12. Bills Payable

As of December 31, 2010 and 2009, bills payable consists of short-term borrowings denominated in US Dollar from the Parent Bank amounting to ₱50.4 million and ₱41.6 million, respectively, which bears annual interest rates ranging from 0.4% to 0.5% and from 0.35% to 0.38% in 2010 and 2009, respectively (Note 22).

In 2010 and 2009, interest expense from bills payable amounted to ₱0.1 million and ₱0.5 million, respectively (Note 22).

13. Other Liabilities

This account consists of:

	2010	2009
Accounts payable	₱56,017,154	₱20,312,945
Accrued other expense payable	41,555,111	92,801,190
Other credits dormant	2,913,047	5,876,599
Withholding taxes payable	2,153,270	1,320,113
Others	6,986,757	6,810,220
	₱109,625,339	₱127,121,067

As of December 31, 2010 and 2009, accrued other expense payable includes accrual for transfer taxes relating to the transfer of assets to the SPV amounting to ₱34.4 million and ₱71.5 million, respectively (Note 2).



14. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities and analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from statement of financial position date:

	2010			2009		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Loans and receivables:						
COCI	₱2,708,104	₱-	₱2,708,104	₱7,458,299	₱-	₱7,458,299
Due from BSP	1,721,864,049	-	1,721,864,049	1,828,356,148	-	1,828,356,148
Due from other banks	15,825,520	-	15,825,520	24,736,605	-	24,736,605
Interbank loans receivable and SPURA	491,525,518	-	491,525,518	721,988,904	-	721,988,904
Receivable from customers:						
Corporate	69,208,472	338,332,013	407,540,485	74,932,326	436,342,808	511,275,134
Consumer	-	12,643,977	12,643,977	-	13,866,956	13,866,956
Others	-	465,284,661	465,284,661	-	470,035,710	470,035,710
	69,208,472	816,260,651	885,469,123	74,932,326	920,245,474	995,177,800
Accrued interest receivable	333,197	75,105,002	75,438,199	1,676,170	73,257,689	74,933,859
Accounts receivable	9,670,613	12,597,927	22,268,540	11,664,000	18,676,998	30,340,998
	2,311,135,473	903,963,580	3,215,099,053	2,670,812,452	1,012,180,161	3,682,992,613
AFS investments:						
Quoted government debt securities	-	59,239,387	59,239,387	-	100,308,169	100,308,169
Equity securities:						
Quoted	-	4,994,620	4,994,620	-	4,958,487	4,958,487
Unquoted	-	23,989,181	23,989,181	-	11,197,796	11,197,796
	-	88,223,188	88,223,188	-	116,464,452	116,464,452
	2,311,135,473	992,186,768	3,303,322,241	2,670,812,452	1,128,644,613	3,799,457,065
Nonfinancial Assets						
Property and equipment	-	126,213,537	126,213,537	-	125,524,245	125,524,245
Accumulated depreciation and amortization	-	(116,480,194)	(116,480,194)	-	(116,598,575)	(116,598,575)
Other assets	-	111,589,688	111,589,688	-	355,869,746	355,869,746
	-	121,323,031	121,323,031	-	364,795,416	364,795,416
	2,311,135,473	1,113,509,799	3,424,645,272	2,670,812,452	1,493,440,029	4,164,252,481
Allowance for impairment and credit losses	-	-	(989,247,280)	-	-	(1,112,743,838)
Unearned discount and capitalized interest	-	-	(4,007,480)	-	-	(33,325,736)
	₱2,311,135,473	₱1,113,509,799	₱2,431,390,512	₱2,670,812,452	₱1,493,440,029	₱3,018,182,907
Financial Liabilities						
Deposit liabilities:						
Demand	₱1,484,928,110	₱-	₱1,484,928,110	₱2,099,549,001	₱-	₱2,099,549,001
Savings	69,574,488	-	69,574,488	61,407,691	-	61,407,691
Time	145,215	-	145,215	152,670	-	152,670
	1,554,647,813	-	1,554,647,813	2,161,109,362	-	2,161,109,362
Due to BSP	131,000	-	131,000	-	-	-
Bills payable	50,416,000	-	50,416,000	41,580,000	-	41,580,000
Manager's checks	16,818,710	-	16,818,710	5,544,060	-	5,544,060
Accrued interest	20,916	-	20,916	20,238	-	20,238
Other liabilities:						
Accounts payable	56,017,154	-	56,017,154	20,312,945	-	20,312,945
Accrued other expenses payable	2,857,758	-	2,857,758	10,025,180	-	10,025,180
	1,680,909,351	-	1,680,909,351	2,238,591,785	-	2,238,591,785

(Forward)



	2010			2009		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Nonfinancial Liabilities						
Income tax payable	1,835	–	1,835	307,322	–	307,322
Accrued taxes	625,790	–	625,790	582,588	–	582,588
Net pension liability	–	23,495,739	23,495,739	–	19,392,049	19,392,049
Other liabilities:						
Accrued other expenses payable	38,697,353	–	38,697,353	82,776,010	–	82,776,010
Withholding taxes payable	2,153,270	–	2,153,270	1,320,113	–	1,320,113
Other credits dormant	2,913,047	–	2,913,047	5,876,599	–	5,876,599
Others	6,986,757	–	6,986,757	6,810,220	–	6,810,220
	51,378,052	23,495,739	74,873,791	97,672,852	19,392,049	117,064,901
	₱1,732,287,403	₱23,495,739	₱1,755,783,142	₱2,336,264,637	₱19,392,049	₱2,355,656,686

15. Equity

As of December 31, 2010 and 2009, the Bank has an authorized capital stock of 15.0 million shares with ₱100.0 par value of which 9.2 million shares are issued and outstanding.

Capital management

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory qualifying capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's 'unimpaired capital' (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of the Bank, expressed as a percentage of qualifying capital to risk weighted assets, should not be less than 10.0%. Qualifying capital and risk weighted assets are computed based on BSP regulations. Risk weighted assets consist of total assets less 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 determined by the MB of the BSP.

Under BSP Circular No. 280, effective July 1, 2001, the capital-to-risk assets ratio (CAR) consider relative credit risk. As of December 31, 2010 and 2009, the Bank was in compliance with the capital adequacy ratio (CAR) prescribed by BSP. The capital-to-risk assets ratio of the Bank, as reported to the BSP are shown in the table below (in thousands).

	Tier I	
	2010	2009
Total qualifying capital	₱679,905	₱667,066
Risk weighted assets	₱430,676	₱907,996
CAR	157.9%	73.5%



The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which comprises paid-up common stock, net unrealized gain (loss) on AFS investments and deficit including current year profit (loss).

The BSP, under BSP Circular No. 538 dated August 4, 2006, has issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II recommendations. The new BSP guidelines took effect on July 1, 2007.

BSP Circular No. 560 dated January 31, 2007 which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing capital-to-risk assets ratio.

In 2010 and 2009, the Bank has complied with all externally imposed capital requirements throughout the period.

The following basic ratios measure the financial performance of the Bank:

	2010	2009
Return on average capital funds	1.9%	1.6%
Return on average assets	0.5%	0.5%
Net interest margin on average earning assets	4.6%	6.5%

16. Miscellaneous Income (Loss)

This account consists of:

	2010	2009
Foreign exchange loss	(₱1,662,252)	(₱2,802,550)
Dividend	500,000	500,000
Others	750,361	277,594
	(₱411,891)	(₱2,024,956)

17. Retirement Plan

The Bank has a funded noncontributory defined benefit retirement plan covering substantially all its officers and regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The principal actuarial assumptions used in determining retirement liability as of the beginning of the year follow:

	2010	2009	2008
Average remaining working life (in years)	16	17	18
Discount rate	8.8%	12.3%	10.5%
Expected rate of return on assets	5.5%	4.5%	5.0%
Future salary increases	7.0%	6.5%	8.0%



The date of last actuarial valuation is December 31, 2010. The discount rate as of December 31, 2010 is 6.7%. The expected rate of return on assets is determined based on the market price prevailing on the date of valuation, applicable to the period over which the obligation is settled. Actuarial valuation is made every year.

The amounts recognized in the statements of financial position follow:

	2010	2009
Present value of obligation	₱21,983,936	₱17,511,903
Fair value of plans assets	12,089,710	10,849,357
Unfunded obligation	9,894,226	6,662,546
Unrecognized actuarial gains	13,601,513	12,729,503
Net pension liability (Note 20)	₱23,495,739	₱19,392,049

The movements in the present value of funded retirement obligation recognized follow:

	2010	2009
Balance at beginning of year	₱17,511,903	₱14,630,340
Current service cost	2,841,007	1,518,765
Interest cost	1,173,298	1,293,322
Actuarial losses	457,728	69,476
Balance at end of year	₱21,983,936	₱17,511,903

The movements in the fair value of plan assets follow:

	2010	2009
Balance at beginning of year	₱10,849,357	₱9,940,589
Expected return	596,715	447,327
Actuarial gain	643,638	461,441
Balance at end of year	₱12,089,710	₱10,849,357

The actual return on plan assets amounted to ₱1.2 million and ₱0.9 million in 2010 and 2009, respectively.

The Bank expects to contribute ₱4.2 million to its defined benefit retirement plan in 2011.

The components of retirement expense included under 'Compensation and fringe benefits' in the statements of comprehensive income follow:

	2010	2009
Current service cost	₱2,841,007	₱1,518,765
Interest cost	1,173,298	1,293,322
Expected return on plan assets	(596,715)	(447,327)
Actuarial loss recognized during the year	686,100	604,100
Retirement expense	₱4,103,690	₱2,968,860



The movements in the retirement liability recognized in the statements of financial position follow:

	2010	2009
Balance at beginning of year	₱19,392,049	₱16,423,189
Retirement expense	4,103,690	2,968,860
Balance at end of year	₱23,495,739	₱19,392,049

Amounts for the current and prior periods follow:

	2010	2009	2008	2007	2006
Present value of the defined benefit obligation	₱21,983,936	₱17,511,903	₱14,630,340	₱23,122,070	₱23,519,801
Fair value of plan assets	(12,089,710)	(10,849,357)	(9,940,589)	(9,460,003)	(4,694,930)
Deficit	9,894,226	6,662,546	4,689,751	13,662,067	18,824,871
Experience adjustments arising on plan liabilities	758,278	567,855	(12,399,746)	1,991,110	349,144
Experience adjustments arising on plan assets	643,638	461,441	7,586	256,415	-

As of December 31, 2010 and 2009, the major categories of plan assets as a percentage of the fair value of the total plan assets follow:

	2010	2009
Investment in government securities	89.2%	92.5%
Deposits in banks	7.9	3.7
Miscellaneous receivables	2.9	3.8
	100.0%	100.0%

18. Occupancy and Equipment-Related Expenses

This account consists of:

	2010	2009
Repairs and maintenance	₱5,884,864	₱5,669,781
Utilities	2,115,125	1,961,112
Rent	2,033,681	7,634,526
	₱10,033,670	₱15,265,419

Repairs and maintenance include information technology expenses and services.

The Bank has a non-cancellable lease agreement on the premises occupied by its principal office. The lease agreement provides for a three-year lease term which shall expire on April 15, 2011, with escalation clause 7.0% rate per annum and renewable for another three (3) years upon expiry thereof in 2011.

The following table presents the minimum lease payable of the Bank for non-cancellable lease:

	2010	2009
Within 1 year	₱1,505,526	₱5,926,131
After 1 year but not more than 5 years	-	1,505,526
	₱1,505,526	₱7,431,657



19. Miscellaneous Expenses

This account consists of:

	2010	2009
Legal fees	₱4,100,960	₱4,909,248
Insurance	3,822,749	1,419,101
Travel expenses	1,902,759	1,321,624
Supplies expenses	1,819,113	712,824
Communication expenses	1,762,318	600,695
Freight and brokerage fees	326,405	490,878
Promotions and advertising	279,925	401,546
Membership fees and dues	252,453	345,151
Treasury expenses	72,242	147,821
Subscription fees and leisure expenses	58,871	91,213
Entertainment, amusement and recreation (EAR) (Note 20)	—	69,302
Others	3,808,232	7,157,463
	₱18,206,027	₱17,666,866

Other miscellaneous expenses consist of condominium dues, storage fees, notarial fees, property maintenance fees, processing and transaction fees and reimbursements made to employees.

20. Income Taxes

Provision for income tax consists of:

	2010	2009
Final tax	₱18,331,923	₱8,552,340
Current	219,539	680,540
	₱18,551,462	₱9,232,880

Under Philippine tax laws, the RBU of the Bank are subject to percentage and other taxes (presented under 'Taxes and licenses' in the statements of comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT).

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.0%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

Starting January 1, 2009 the RCIT rate shall be 30.0% and interest allowed as deductible expense shall be reduced by 33.0% of interest income subjected to final tax.

The National Internal Revenue Code (NIRC) of 1997 also provides for rules in the imposition of MCIT of 2.0% on the gross income as of the end of the taxable year beginning on the fourth (4th) taxable year immediately following the taxable year in which the Bank commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.



In addition, the NIRC of 1997 allows the Bank to deduct from its taxable income for the current year its accumulated net operating losses for the immediately preceding three (3) consecutive taxable years.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. The regulations also provide for MCIT of 2.0% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.0% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.5%. Republic Act No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.0% income tax.

The Bank did not set up deferred tax assets on the following temporary differences:

	2010	2009
NOLCO	₱76,154,901	₱31,861,788
Allowance for impairment and credit losses	27,322,806	27,610,021
Net pension liability (Note 17)	23,495,739	19,392,049
MCIT	1,583,093	5,486,991
Net unrealized foreign exchange loss	1,212,134	2,802,911
Net unrealized loss on AFS investments (Note 6)	569,283	263,578
	₱130,337,956	₱87,417,338

Management believes that deductible temporary differences may not be realized and that the taxable temporary differences will not reverse in the future.

Details of the Bank's MCIT and NOLCO follow:

MCIT				
Inception Year	Amount	Expired/Used	Balance	Expiry Year
2007	₱4,121,602	₱4,121,602	₱-	2010
2008	684,849	-	684,849	2011
2009	680,540	-	680,540	2012
2010	217,704	-	217,704	2013
	₱5,704,695	₱4,121,602-	₱1,583,093	

NOLCO				
Inception Year	Amount	Expired/Used	Balance	Expiry Year
2008	₱7,028,558	₱-	₱7,028,558	2011
2009	24,833,230	-	24,833,230	2012
2010	44,293,113	-	44,293,113	2013
	₱76,154,901	₱-	₱76,154,901	



A reconciliation of the statutory income tax rate to effective income tax rate follows:

	2010	2009
Statutory income tax rate	30.0%	30.0%
Tax effect of:		
Change in unrecognized deferred tax assets	28.5	48.8
Tax-paid interest income	(29.0)	(44.7)
Nondeductible interest expense	28.8	16.3
Tax-exempt income	(0.5)	(3.3)
Others	1.1	-
Effective income tax rate	58.9%	47.1%

21. Trust Operations

In connection with the approved conversion of the Bank's license from commercial bank to thrift bank, the Bank informed BSP on its letter dated February 2, 2006 that its Trust Department would cease its operations but would possibly resume in the future subject to compliance with all the requirements of trust operations.

22. Related Party Transactions

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

In the ordinary course of business, the Bank has loan transactions with affiliates and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.0% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the Bank's total regulatory capital or 15.0% of total loan portfolio, whichever is lower.

On March 15, 2004, the BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts. Any violation of the provisions under Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

As of December 31, 2010 and 2009, the Bank has no related DOSRI loan accounts.



On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.0% of the bank's net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank. BSP Circular No. 560 is effective February 15, 2007.

The transactions and outstanding balances of the Bank with the related parties follow:

Related party	Nature of transaction	Elements of Transactions			
		Statement of financial position		Statement of comprehensive income	
		2010	2009	2010	2009
Parent Company	Loans and receivables:				
	Accounts receivable	₱4,480,508	₱4,931,146		
	Bills payable	50,416,000	41,580,000		
	Interest expense			₱100,799	₱454,395

As of December 31, 2010 and 2009, total deposit liability of the Bank with its related parties amounted to ₱487.9 million and ₱295.4 million, respectively, with related interest expense of ₱1.3 million and ₱0.7 million, respectively.

Compensation of key management personnel included under 'Compensation and fringe benefits' in the statements of comprehensive income follows:

	2010	2009
Short-term employee benefits	₱3,224,745	₱3,061,899
Post employment benefits	12,945,855	11,017,128
	₱16,170,600	₱14,079,027

Short-term employee benefits include salaries and other non-monetary benefits.

23. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities, such as guarantees, commitments to extend credit and similar arrangements which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

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

	2010	2009
Unused letters of credits	₱-	₱12,000,000
Others	3,005,528	3,175,971



Other contingent accounts consisted mainly of inward and outward bills for collection, late deposit payments, export bills for collection, items held for safekeeping and unsold travelers' checks. Several suits and claims relating to the Bank's lending operations and labor-related cases remain unsettled. In the opinion of management, these suits and claims, if decided adversely, will not involve sums having a material effect on the financial statements.

In addition, the Bank is contingently liable for lawsuits or claims and tax regulatory assessments filed against by third parties which are pending in decision or are under negotiation, the outcome of which are not presently determinable. Management believes that eventual liability under these lawsuits or claims will not have a material effect on the Bank's financial statements.

24. Others

On April 16, 2010, the SPV filed a claim against the Bank concerning some of the non-performing assets acquired by the former from the Bank in 2006. The specific claims against the Bank were mostly for alleged discrepancies in the valuation of properties and/or defective titles or asset documents in the light of subsequent discovery of existing or potential liens and liabilities involving the assets.

The Bank's management is of the opinion that its legal position versus the complaint is strong and that the probability of the case prospering is very remote.

25. Supplementary Information Required Under Revenue Regulations 15-2010

In 2010, the Bank reported and/or paid the following other taxes:

GRT	₱8,358,678
Local taxes	971,231
Documentary stamp taxes (DST)	879,717
Fringe benefit tax	547,859
Others	3,390,757
	<hr/>
	₱14,148,242

The DST paid on the following transactions are:

Transaction	Amount	DST thereon
Remittances	₱474,241,600	₱761,523
Deposits	235,043,441	118,194
	<hr/>	<hr/>
	₱709,285,041	₱879,717



Withholding taxes

As of December 31, 2010, total remittances and balance of withholding taxes follow:

	Total remittances	Balance
Withholding taxes on compensation and benefits	₱10,295,755	₱769,486
Final withholding taxes	6,365,506	453,221
Expanded withholding taxes	2,419,887	930,563
	₱19,081,148	₱2,153,270

