Annual Report 2012

We are Family

Chinatrust
中國信託

Summary of Disclosure Requirements
Of Bangko Sentral ng Pilipinas

For the Annual Report 2012

SUMMARY OF DISCLOSURE REQUIREMENTS FOR ANNUAL REPORT YEAR 2012

REQUIREMENT		DISCLOSURE
Manual of Regulation of Banks. Subsection X190.5		
1.	Financial Performance	See SEC Report, Part II
2.	Financial position and changes therein	See SEC Report, Part II
3.	Overall risk management philosophy (i.e., a general statement of the risk management policy adopted by the bank's board of directors which serves as the basis for the establishment of its risk management system)	Risks should be properly understood, controlled & managed, in addition to the risk processes which must be clearly aligned with the Bank's business strategies. The aim of the risk management is to protect the Bank against unforeseen roles that could arise from taking risk beyond the Bank's risk appetite. The ultimate goal is to be able to maximize its risk adjusted return on capital.
4.	Risk Management System & Structure	See Annex 1

REQUIREMENT		DISCLOSURE
5.	Basic business management and corporate governance information : a. Bank's organizational structure	See SEC Report, Part I & IV See Annex 2
	b. Incentive structure including its remuneration policies,	See Annex 13
	c. Nature and extent of transactions with affiliates and related parties	See Annex 14

REQUIREMENT		DISCLOSURE
APPENDIX 63B		
1.	Capital structure and capital adequacy a. Tier 1 capital and a breakdown of its components (including deductions solely from Tier 1); b. Tier 2 capital and a breakdown of its components; c. Deductions from Tier 1 fifty percent (50%) and Tier 2 fifty percent (50%) capital; d. Total qualifying capital; e. Capital requirements for credit risk (including securitization exposures); f. Capital requirements for market risk; g. Capital requirements for operational risk;	See table below.
2.	Risk exposures and assessments I. Quantitative Information II. Qualitative Information	See Annexes .

Total Qualifying Capital		Amount (In Million PHP)	NOTES
A.1	Adjusted Tier 1	6,024.595	See Annex 3 for Breakdown
A.2	Adjusted Tier 2	148.751	See Annex 3 for Breakdown
A.3	Total Qualifying Capital (sum of A.1 and A.2)	6,173.346	
Total Risk Weighted Assets		Amount	Minimum Capital Requirement
B.1	Total Credit risk-weighted assets	14,842.201	1,484.220
B.2	Total Market risk-weighted assets	1,616.927	161.693
B.3	Total Operational risk-weighted assets	3,631.895	363.189
B.4	Total risk-weighted assets (sum of B.1 to B.3)	20,091.023	2,009.102
C.1	Capital Adequacy Ratio (A.3 / B.4*100)	30.727	

REQUIREMENT		DISCLOSURE
	For each separate risk area (credit, market, operational, interest rate risk in the banking book), banks must describe their risk management objectives and policies, including: a. Strategies and processes; b. The structure and organization of the relevant risk management function; c. The scope and nature of risk reporting and/or measurement systems; d. Policies for hedging and/or mitigating risk, and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.	See Annexes : ANNEX 4 Credit Risk ANNEX 5 Market Risk ANNEX 6 Operational Risk ANNEX 7 Other Pillar II Risks ANNEX 8 Liquidity Risk ANNEX 9 Interest Rate Risk in the Banking Book ANNEX 10 Compliance & Business Risk ANNEX 11 Reputation Risk ANNEX 12 Strategic Risk

Annual Report Year 2012

submitted to

Securities and Exchange Commission (SEC)

COVER SHEET

A S O 9 5 0 0 8 8 1 4 A

S.E.C. Registration Number

C H I N A T R U S T (P H I L I P P I N E S)

C O M M E R C I A L B A N K C O R P O R A T I O N

Company's Full Name

F o r t L e g e n d T o w e r s T h i r d

A v e n u e c o r n e r 3 1 s t S t r e e t

B o n i f a c i o G l o b a l C i t y

T a g u i g C i t y

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

Atty. Maritess Parilla-Elbinias	9889-287
Contact Person	Company Telephone Number

1 2	3 1	SEC17-A (2012 ANNUAL REPORT)	0 5	4
Month	Day	Form Type	Month	Day
Fiscal Year			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

sye/jps

12

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

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

2. SEC Identification Number ----------------- AS-095-008814A

3. BIR Tax Identification No. ----------------- 004-665-166-000

4. Exact name of issuer as specified in its charter ---------

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION

5. Philippines
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City — 1634
Address of Principal Office — Postal Code

(632) 9889 287
8. Issuer's telephone number, including area code

N/A
9. Former name, former address, and former fiscal year, if changed since last report.

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, P10 par value	247,968,731
Treasury Shares	484,920

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

Yes [ ] No [x]

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

**The Philippine Stock Exchange in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Bank's Petition for Voluntary Delisting effective February 24, 2012.*

Check whether the Issuer:

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

Yes [x]   No [ ]

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

Yes [x]   No [ ]

13. The aggregate market value of the voting stock held by non-affiliates of the registrant.

Number of shares held by non-affiliates multiplied by share price as of February 20, 2012: Php29,457,160.00.

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. ***Not Applicable.***

Yes [ ]   No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) Any annual report to security holders ------------- Not applicable

(b) Any proxy or information statement filed pursuant to SRC Rule 20 and 17.1(b)------Not applicable

(c) Any prospectus filed pursuant to SRC Rule 8.1-1--------- Not applicable

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Description of Business

Business Development. Chinatrust (Philippines) Commercial Bank Corporation ("Bank" or "Chinatrust") is the Philippine subsidiary of Chinatrust Commercial Bank, Ltd. ("CTCB") of Taiwan. CTCB is the biggest privately-owned commercial bank, the most awarded financial institution in the island nation, and one of the world's top two hundred (200) banks in terms of capital.

The Bank was incorporated on September 7, 1995 initially as Access Banking Corporation, and commenced operation on September 26, 1995 as a domestic commercial bank. The Bank has an authorized capital stock of P3.0 Billion.

On November 22, 1995, the Monetary Board approved the investment of CTCB in sixty percent ("60%") of the voting stock of Access Banking Corporation through the outright purchase of fifty percent ("50%") or P487.5 Million of its P975.0 million outstanding voting stock and an additional subscription of P262.5 million of the P275.0 million additional voting stock issued. On January 8, 1996, the Bank's name was changed to its present name - Chinatrust (Philippines) Commercial Bank Corporation.

The Bank's only affiliate, Chinatrust Forex Corporation ("CFC"), 40% of which is owned by the Bank, commenced commercial operation on May 21, 1997 to engage in foreign exchange dealership. As a result of tighter regulations resulting from the efforts of the government and the BSP to combat money laundering and to curb undue speculation on the currency, the CFC's Board of Directors, in its meeting last 29 January 2004, resolved to dissolve CFC subject to the final approval by the stockholders holding at least 2/3 of the outstanding capital stock of CFC. CFC ceased operations last June 30, 2004. As of May 25, 2012, the Bureau of Internal Revenue issued a Certification of No Outstanding Tax Liability of the Company. As of December 05, 2012, the Securities and Exchange Commission has approved the petition of the Company for the withdrawal of its license to transact business in the Philippines.

In line with the capital build-up program of the Bank, its Board of Directors approved in 1997 the issuance of 25 million common shares at P10.00 per share from its authorized capital stock via a stock rights offering to existing stockholders. This entitled the existing shareholders to subscribe to one (1) common share for every five (5) shares held. As of December 31, 1997, the stock rights offering was fully subscribed; partial payment to the subscription amounted to P209.99 million which resulted in the Bank's attainment of its P1.647 Billion capital, fully complying with minimum capital requirements of BSP of P1.625 billion by the end of the year. On March 31, 1998, all subscriptions to the stock rights were fully paid. On April 23, 1998, the SEC approved the stock rights offering.

On June 2, 1999, the Bank's share was listed in the Philippine Stock Exchange ("PSE") through an Initial Public Offering ("IPO") of 37,500,000 common shares from its unissued authorized capital stock. The proceeds of the IPO were utilized for branch expansion and investment in information technology.

In December 2000, CTCB substantially increased its equity in the Bank through the acquisition of shares held by a minority group, thus controlling approximately 91% of the Bank's capital stock, compared to 57% prior to the acquisition. A further acquisition of shares held by the public representing 9% of the Bank's equity was made by CTCB in January 2001 through a tender offer at a price of PhP19.00 per share, the same price at which the shares from the minority group was acquired. To date, CTCB holds 99.41% of the Bank's outstanding capital stock.

On August 25, 2005, the Board of Directors of the Bank declared 15% stock dividends out of its unissued shares. It was subsequently approved by the shareholders in a special meeting called for the same purpose on December 22, 2005. The BSP later approved the 15% stock dividend on February 20, 2006. On April 4, 2006, 28,124,997 common shares representing the 15% stock dividends were issued to the Bank's shareholders and simultaneously listed with the PSE.

On March 30, 2007, the Bank's Board of Directors once again made another 15% stock dividend declaration, to be paid out of the Bank's unissued shares. The same was ratified by the shareholders during the Bank's annual shareholders' meeting held on June 28, 2007, and subsequently approved by the BSP on September 20, 2007. On November 15, 2007, an additional 32,343,734 common shares representing 15% stock dividends were listed in the PSE and issued to the Bank's stockholders of record as of record date.

On June 28, 2012, the Bank's stockholders elected the following directors: Jack Lee, William B. Go, Larry Hsu and Peter Liu and Mark Chen; Messrs. Edwin Villanueva and Ng Meng Tam were elected as independent directors. Messrs. Jack Lee and William B. Go were elected Chairman and Vice-Chairman, respectively.

On December 23, 2011, the Bank a filed Petition for Voluntary Delisting at the Philippine Stock Exchange ("PSE"). Pursuant to the PSE Voluntary Delisting Rules, a tender offer was conducted by the Bank at a tender offer price of Php26.14. The PSE in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Petition for Voluntary Delisting effective February 24, 2012.

Based on the data as of December 31, 2012 posted by Business World, out of the thirty-five (37) universal and commercial banks operating in the Philippines, the Bank ranked 30th in terms of Total Assets; 29th in terms of Total Loans; 30th in terms of Total Deposits; and 30th in terms of Total Capital.

(2) Business of Issuer

Products and Services. As a full-service commercial bank, the Bank offers various products and services, such as the following:

PESO DEPOSITS
Peso Savings Account
Peso Checking Account
Ultimate Earner Checking Account
Peso Time Deposit
Special One-Year Peso Time Deposit

FOREIGN CURRENCY DEPOSITS
Dollar Savings Account
Dollar Time Deposit
Dollar Innovate Five-Year Time Deposit

CONSUMER LOANS
Housing Loan
Salary Stretch Loan (Personal and Corporate)
Back-to-Back Loan (Personal and Corporate)

CORPORATE LENDING
General Working Capital Loans
Capital Expenditure Financing
Structured Finance
Syndicated Financing
Trade Financing
Various Discounting Facilities

CASH MANAGEMENT SERVICES
Account Information Management
- NetBanking
- E-Mail Statement

Disbursement Management
- Chinatrust Visa Debit & Cash Card
- Payroll Partner
- Ultimate CheckWriter
- Customs Duties
- eGov

Receivables Management
- Post-Dated Check Warehousing
- Ultimate Money Mover (Deposit Pick-up)
- Night Depository
- BancNet Bills Payment
- Point-of-Sale

TRANSACTION BANKING
Invoice Payables Financing
Medical Receivables Funding Program

TREASURY SERVICES
Foreign Exchange
- Spot, Forward & Options

Peso Fixed Income
- Treasury Bills
- Fixed Rate Treasury Notes
- Retail Treasury Bonds
- Global Peso Notes
- Peso Corporate Bonds

Dollar Fixed Income
- ROP Dollar Bonds
- Onshore Dollar Bonds
- Other Sovereign Bonds
- Dollar Corporate Bonds

TRUST PRODUCTS
Living Trusts
Corporate/Institutional Trusts
Investment Management (Personal and Corporate/Institutional)
Retirement Fund Management
Other Fiduciary Services:
- Escrow Agency (Personal and Corporate)
- Safekeeping (Personal and Corporate)
- Mortgage Trust Indenture

PAYMENT AND REMITTANCE SERVICES
Remittances/Telegraphic Transfers

TRADE SERVICES
Letters of Credit
- Import Letters of Credit
- Export Letters of Credit
- Import and Export Bills Processing
- Domestic Letters of Credit
- Standby Letters of Credit

Shipping Guarantee
Loans Against Trust Receipts
Import Documentary Collections (D/P, D/A)
Open Account/Direct Remittances

From the foregoing products and services, the Bank's revenues are categorized into three (3) major segments, namely: (1) Portfolio Products; (2) Transactional Banking Products; and (3) Exposure Management Products. The remaining revenues are classified under Others. Portfolio Product revenues consist of spreads earned on loans.

Transactional Banking Product revenues consist of spreads earned on deposits as well as fees earned from cash management products and trade services. Exposure Management Product revenues consist of income earned from the investment portfolio and trading activities. Other revenues consist of fees earned on trust services, gain on sales of acquired assets, service fees and charges earned on all other banking activities. The contributions of the 3 major segments in terms of percentage to the Bank's total revenues during the last two years are as follows:

Major Segment	***2011***	***2012***
Portfolio Products	51.93%	53.91%
Transactional Banking Products	13.11%	13.69%
Exposure Management Products	31.55%	26.98%

Status of New Products or Services. Invoice Payables Financing Program was introduced in 2012.

Distribution Network. The Bank's products and services are made available to its clients through its offices, branch network, all automatic teller machines (ATMs), and for some services/products, thru its own ATM's or through other ATM networks. Likewise, some products can now be accessed through electronic channels i.e. interactive voice response system, internet and short message system (SMS). In addition to its Main Office Branch in Bonifacio Global City, the Bank operates 23 branches as of end of December 2012.

Competition. The Bank faces competition from both domestic and foreign banks that operate in the Philippines. In the light of such competitive environment, the Bank focuses on key businesses to include consumer finance, the trading of fixed-income instruments and foreign exchange, the Taiwanese business, and selective corporate lending. By being a specialist, it is able to properly concentrate its resources and capital to ensure service excellence and good risk management and corporate governance. The Bank likewise adopts applicable business models from its parent bank and custom fits these to local market conditions. These efforts make the Bank a strong player in its chosen businesses.

Sources and availability of raw materials and the names of principal supplies. - **Not applicable.**

Dependence upon a single/few customers. **– Not applicable.**

Transactions with and/or dependence on related parties. Except in the ordinary course of business such as DOSRI and employee loans, there are no transactions with and/or dependence on related parties.

Trademarks, Licenses, Franchises., etc. The Bank is also not dependent on any patents, trademarks, copyrights, licenses, franchises, and royalty agreements.

Effect of existing or probable government regulations*.* As a domestic commercial bank, the Bank is governed by the rules and regulations of the BSP. The Bank observes and complies with all government laws, rules and regulations that exist.

Amount spent on research and development. There are no major expenses on research and development activities and these are just incorporated into the ordinary business expense of the Bank.

Cost and effect of compliance with environmental laws. - **Not applicable.**

Number of Employees. As of December 31, 2012, the Bank had five hundred forty five (545) employees composed of 342 officers and 203 staff, with 527 regular employees and 18 probationary employees. The Bank has no existing employees' union. It has also no collective bargaining agreement.

In addition to salary, the Bank gives its employees fringe benefits, consisting of 13th month pay, mid-year bonus, Christmas bonus, performance bonus, medical allowance, health benefits, group life insurance, car plan, company car benefit, parking allowance, gasoline reimbursement, meal allowance, out-of-base allowance, salary loans, retirement pay loan, retirement benefits, and various leaves (sick, vacation, emergency, maternity, paternity, solo parent, etc.).

Major Business Risks. The Bank's business activities are exposed to a variety of financial risks – market risks, credit risk, liquidity risk and interest rate risk. The Bank is strongly committed to judiciously managing risks. For this purpose, it has put in place the necessary processes and platforms that enable it to prudently manage all categories of risk. It is the presence of this risk infrastructure and consciousness that has made the Bank either a leader or a major player in businesses where the required core competency is astute risk management capability. The Bank's risk management programs seek to minimize potential adverse effects on its financial performance.

Market risk is the risk that the value of a currency position or financial instrument will fluctuate due to changes in foreign exchange rates and interest rates. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities and derivatives. The Bank utilizes market risk factor sensitivities as a tool to manage market risk. Market risk factor sensitivities of a position are defined as a change in the value of a position caused by a unit shift in a given market factor. The Market Risk Management Unit implements a trading risk limits that is in line with the Bank's risk appetite. The Bank also maintains a rigid system of loss limits and action triggers that prompt management to immediately act in the event that these thresholds are breached. These actions may include, but are not limited to, the partial liquidation of existing positions in order to cut losses. The objective of these thresholds is to ensure that losses, if any, will be limited to what the Bank's earning capability can sufficiently cover.

Credit risk is the risk that a borrower or issuer of a security held by the Bank will not pay the obligation when it falls due. The Bank manages its credit risk by setting limits for individual borrowers and group of borrowers. It also puts a cap on exposures to specific products, specific market segments, specific industries and specific loan tenors. The Bank likewise monitors borrower-specific credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, enters into collateral arrangements with counterparties and limits the duration of the exposures.

Liquidity risk is the risk that the Bank will be unable to meet its obligations as they fall due at a reasonable cost within a reasonable timeframe. To effectively manage liquidity risk, the Bank diversifies its funding sources and maintains a set of prudent liquidity risk limits, liquidity indicators, maturity gap analysis, and maximum cumulated outflows per tenor bucket. In addition, the Bank maintains sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions.

Interest rate risk is the risk to future earnings or equity arising from the movement of interest rates. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Bank measures the impact of 1 basis point change in interest rate on net interest income (NII) and that on economic value of equity (EVE). The analysis of such impact on NII (1bp□NII) focuses on changes in interest income and expense within a year, hence, a short-term perspective. The analysis of such impact on EVE (1bp□EVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on. Accordingly, both delta Net Interest Income and delta Economic Value of Equity limits in relation to the interest rate sensitivity of the banking book have been established by Management.

In addition to financial risks, the Bank is also exposed to operations risks. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank ensures that specific business policies, processes, procedures and staff are in place to manage overall operational risks by way of identifying, assessing, controlling, mitigating, monitoring and reporting risk events. The Bank manages other types of risks such as regulatory and reputational risk.

Item 2. Properties

Properties Owned

The Bank owns the following condominium units described hereunder:

- Commercial unit, the entire 12th Floor, BA Lepanto Building, Paseo de Roxas, Makati City
- Unit 9-F & 9-G, The Forbeswood Height condominium, Taguig City – sold (conditional sale) within redemption (titles not yet transferred)
- Unit 17-F – Lansbergh Place Condominium, Q.C (Unsold) – within redemption (title not yet transferred to CTP)

There are no mortgage, liens, encumbrances or any limitations on the Bank's ownership of the foregoing units, except that the following units are subject of separate Contracts to Sell, the consideration of which has not yet been fully paid: (1) Unit 116 Makati Prime City, San Antonio Village, Makati City; (2) Residential unit, 4th Floor, Ylaya Mansion, Ylaya Street, Tondo, Manila; (3) Unit 1601 Summit One Tower, Shaw Blvd., Mandaluyong City; (4) Unit 1503 Le Triomphe H.V. Dela Costa Makati City; and (5) Unit D-4 Cluster 3, Little Baguio Gardens, J. Fernandez St., San Juan City.

Description of Property the Bank intends to acquire in the next 12 months. There are no plans to acquire properties within the next twelve (12) months. However, the Bank will lease properties to serve as sites for its branches. These prospective sites are either being presently identified or currently the object of preliminary negotiations with the lessors.

Properties Leased

a. Offices

OFFICE	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE
16F to 19F and GF Fort Legend Towers	Bonifacio Global City, Taguig City	10 years	P2,608,838.40	April 14, 2020

b. Condominium Units

LEASED PREMISES	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE
House and Lot in Dasmariñas Village	Makati City	2 years	313,600.00	11/30/2014
Duplex in San Lorenzo Village	Makati City	1 year	143,380.00	04/30/2013
House and Lot in Ayala Alabang Village	Muntinlupa City	2 years	130,000.00	08/10/2014
Condominium Unit in The Luxe Residences	Taguig City	6 months	83,000.00	08/24/2013
Condominium Unit in Serendra	Taguig City	1 year	107,100.00	10/06/2013
Condominium Unit in Serendra	Taguig City	1 year	80,000.00	11/30/2013
Condominium Unit in Serendra	Taguig City	1 year	68,230.00	08/12/2013

c. Branches

NAME OF BRANCH	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE
Alabang	Muntinlupa City	5 years	PhP241,949.44	2/28/2017
Ayala	Makati City	5 years	PhP87,651.20	3/31/2016
Angeles	Angeles City	5 years	PhP130,368.00	6/14/2016
Binondo	Manila	5 years	PhP166,698.00	5/31/2016
Buendia	Makati City	10 years	PhP124,573.68	5/22/2013
Cagayan de Oro	Cagayan de Oro	7 years	PhP138,283.77	10/31/2016
Carmona	Cavite	5 years	PhP81,799.99	12/31/2015

Cavite	Cavite	1 year	PhP76,440.00	12/31/2013
Cebu-Banilad	Cebu City	5 years	PhP271,040.00	7/31/2015
Cebu-Magallanes	Cebu City	5 years	PhP213,447.92	9/30/2016
Cebu-Mandaue	Mandaue City	5 years	PhP150,833.76	11/30/2016
Davao	Davao City	5 years	PhP156,137.78	6/30/2016
Dela Costa	Makati City	5 years	PhP188,256.54	10/14/2016
Del Monte	Quezon City	5 years	PhP98,560.00	7/1/2017
Greenhills	San Juan City	5 years	PhP222,794.88	7/31/2013
Kalookan	Kalookan City	9 months	PhP142,296.00	3/31/2013*
Las Piñas	Las Piñas City	5 years	PhP176,960.00	5/31/2017
Mabini	Manila	5 years	PhP162,458.98	6/30/2014
Marikina	Marikina City	5 years	PhP98,557.47	12/24/2015
Ortigas	Pasig City	5 years	PhP364,853.55	7/7/2014
Rada	Makati City	5 years	PhP151,597.60	6/30/2016
Subic	Zambales	5 years	PhP5,013.21	1/4/2014
Sucat	Paranaque City	5 years	PhP117,771.19	4/28/2015

All lease contacts have renewal options upon the terms and conditions mutually acceptable to the Bank and the lessors.

**The Bangko Sentral ng Pilipinas in its letter dated December 28, 2012 approved the temporary closure of the Kalookan branch by the first quarter of 2013.*

Item 3. Legal Proceedings

Except for cases or proceedings, which are incidental to its business such as suits for sum of money, foreclosures, writs of possession, employee relations, and other cases arising from loan transactions and operations, the Bank has no material pending legal proceedings for or against it.

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

There were no matters submitted to a vote of the security holders during the fourth (4^{th}) quarter of the year covered by the report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

1. Market Information

As stated earlier, the PSE in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Petition for Voluntary Delisting effective February 24, 2012. Market prices of the Bank's shares since 1st quarter of 2010 to 1st quarter of 2012 are as follows:

QUARTER	HIGH	LOW
1Q '12	25.50	20.00
4Q'11	28.00	19.00
3Q'11	21.00	20.00
2Q '11	22.00	21.00
1Q '11	21.00	21.00
4Q'10	23.50	21.00
3Q'10	22.00	20.00
2Q '10	22.00	15.25
1Q '10	25.00	24.00

As of February 20, 2012, which is the last trading date prior the effective date of delisting at the PSE, the information showed a closing price of P20.00.

There was no sale of any securities made by the Bank within the last three (3) years.

2. Holders

The number of shareholders of record as of February 28, 2013 is 100.

Common Shares outstanding as February 28, 2013 are 247,968,731. Out of the said outstanding shares, 484,920 are Treasury shares as a result of the Tender offer conducted pursuant to PSE's Voluntary Delisting Rules.

The Top 20 Stockholders of record as of February 28, 2013 are as follows:

Name	Number of Shares Held	% to Total
Chinatrust Commercial Bank, Ltd.	246,495,812	99.41
Chinatrust (Philippines) Commercial Bank Corporation	484,920	00.20
Carlos Z. Ortoll &/or Ma. Asuncion M. Ortoll	371,156	00.15
Alfonso Lao	185,150	00.07
PCD Nominee Corp. (Filipino)	76,456	00.03
Arlene Ravalo Ulanday & or Bethel Ann Ravalo & or Eliodoro Ravalo	75,000	00.03
Chen Li Mei	65,992	00.03
Bettina V. Chu	29,095	00.01
Regan C. Sy	26,450	00.01

Ching L. Tan	13,225	00.01
Razul Z. Requesto	13,225	00.01
Guat Tioc Chung	13,225	00.01
Bernardito U. Chu	13,225	00.01
Oliverio Guison Laperal	13,225	00.01
Hui Ching Fai &/or Go Yik Suen	6,612	00.00
Regina Capital Dev. Corp. 000351	6,325	00.00
Rowena Co	3,967	00.00
Optimum Securities Corporation	3,345	00.00
Assissi C. Raval	2,645	00.00
Remedios M. Lim	2,645	00.00

3. Dividends

The Bank declared 15% stock dividends last August 25, 2005, which was subsequently approved by its shareholders on December 22, 2005. The BSP later approved the 15% stock dividend on February 20, 2006. On April 4, 2006, 28,124,997 common shares representing the 15% stock dividends were paid to the Bank's shareholders and simultaneously listed with the PSE.

On March 30, 2007, the Bank's Board of Directors once again made another 15% stock dividend declaration, to be paid out of the Bank's unissued shares. The same was ratified by the shareholders during the Bank's annual shareholders' meeting held on June 28, 2007, and subsequently approved by the BSP on September 20, 2007. On November 15, 2007, an additional 32,343,734 common shares representing 15% stock dividends were listed in the PSE and issued to the Bank's stockholders of record as of record date.

Any dividend declaration to be made by the Bank is subject to approval by the BSP, SEC and PSE. Currently, the Bank's retained earnings had been restricted in full for the following purposes: i.) to comply with the requirements of the ICAAP pursuant to BSP Circular 639 which took effect on January 1, 2010; ii.) to cover the resulting treasury shares acquired in relation to the Bank's voluntary delisting and tender offer; and, iii.) to provide for buffer in preparation for BASEL III requirements.

4. Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

There has been no sale of exempt securities nor of securities constituting an exempt transaction within the past 3 years.

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

1. Management Discussion and Analysis and Results of Operations (Last Three Years, 2012, 2011, 2010)

FY 2010 Compared to FY 2009

Chinatrust's audited net income went up by 20.8% to PhP410 million from PhP339 million last year, driven by a hefty increase in trading gains and better margins on account of lower funding costs. This performance translated to a 7.3% return on equity (ROE) and 1.6% return on assets (ROA).

Revenues moved up by 9% as non-interest income grew by 28%. The increase was pushed mainly by higher trading and foreign exchange gains, which surged to PhP307 million in 2010 from PhP161 million in 2009. This resulted as the favorable economic environment led the Bank to take advantage of opportunities in the bond markets, where interest rates had fallen last year. Net interest income rose by 3.6%, from PhP1.502 billion to PhP1.556 billion. The improvement was spurred by a 32% decrease in interest expenses on deposit liabilities, attributable to the PhP748.5 million drop in average volume of high-cost deposits. Meanwhile, low-cost deposits climbed by 5%, from PhP4.6 billion in 2009 to PhP4.8 billion in 2010. Chinatrust continued to source low-cost funds largely from its unique cash management offerings, and not from its borrower's maintaining balances.

The Bank maintained its conservative stance on loan loss provisioning. It set aside PhP286.95 million as provisions for impairment and credit losses for the year, thus making sure that it remained well-prepared for any eventuality.

Operating expenses were kept flat at PhP1.2 billion versus the previous year, as the Bank continued to improve productivity from economies of scale. Cost to income ratio was reported at 51.8% in 2010, from 56.5% in 2009. The figure indicated a satisfactory level of efficiency implemented by the Bank.

Asset quality showed a significant advance in 2010. Non-performing loans (NPL) ratio as of December 31, 2010 improved to 1.66%, nearly halved from 3.04% in December 2009. Further, the Bank once again manifested its financial strength with a high capital adequacy ratio, which stood at 25.33% for 2010. The figure placed it considerably above industry as well as the regulatory requirement of 10%.

FY 2011 Compared to FY 2010

Chinatrust's net income after tax for the year end December 31, 2011 stood at Php327M, a 20% decline compared to last year of Php410M. This translates to a return on equity (ROE) and return on assets (ROA) of 5.47% and 1.41%, respectively.

Decrease in net income was due to decline in interest income by 12% on account of lower average volume of loans. However, interest expense on deposit liabilities slid by 71% or Php164M as the Bank was able to lower its average cost of funds to 1.49% per annum from last year's 2.21% per annum.

Total fee income rose by 4% mainly brought about by hefty increase in fixed income trading activities by 20% or Php64M better than last year's performance.

Provisions for impairment improved by 39% or Php81M lower than last year due to reversals of specific impairment on fully settled loan accounts and improvement in credit quality.

Total resources stood at Php25.8 billion, reflecting a 6% increase compared to December 2010 level. Total deposits as of December 31, 2011 amounted to Php17.3 billion, 2% higher compared to 2010 year-end level of Php16.9 billion.

Non-performing loans (NPL) ratio as of December 31, 2011 stood at 1.34% as compared to 1.66% as of December 2010. The Bank's capital adequacy ratio (CAR) remains high versus the industry at 29.1% as of December 31, 2011, better than year-end 2010 CAR of 25.3% and significantly above the regulatory requirement of 10%.

FY 2012 Compared to FY 2011

Chinatrust's posted a Php319 million net income after tax for the year 2012, 2.26% lower than last year of Php327 million. This translated to an ROE and ROA of 5.1% and 1.5%, respectively. Net interest income stood at Php1.496 billion from Php1.510 billion last year, mainly brought by lower average volume of loans from Php14.37 billion to Php12.73 billion arising from net corporate loan pay downs and partly offset by lower interest expenses on deposit liabilities due to lower average volume of deposits from Php15.13 billion to Php12.86 billion.

Service fees and commission income increased by 2.97% from Php197.5 million to Php203.4 million brought mainly by higher credit related fees from corporate finance transactions. Furthermore, miscellaneous income went up due to higher recoveries from previously written-off assets. Likewise, foreign exchange gains went up to Php11.4 million from (Php5.5 million) last year. On the other hand, trading gains went down by 14.96% from Php314.2 million to Php267.2 million.

The Bank recognized a charge of Php192.2 million as provisions for impairment and credit losses for the period, maintaining its conservative stance on loan loss provisioning.

Total resources stood at Php21.6 billion, lower by 16% compared to last year's level. Total deposits as of December 31, 2012 amounted to Php12 billion, 31% lower compared to 2011 year-end level of Php17.3 billion.

Non-performing loans (NPL) ratio as of December 31, 2012 stood at 1.40% as compared to 1.34% as of December 2011. The Bank's capital adequacy ratio (CAR) remains high relative to industry average at 30.73% as of December 31, 2012, better than year-end 2011 CAR of 29.12% and way above the regulatory requirement of 10%.

Key Financial Indicators

The following ratios are used to assess the performance of the Bank presented on a comparable basis:

	December 31, 2012	December 31, 2011
Return on Average Equity (ROE)	5.09%	5.47%
Return on Average Assets (ROA)	1.48%	1.41%
Cost-to-Income Ratio	60.37%	58.84%

	December 31, 2012	December 31, 2011
Non-Performing Loan Ratio (NPL)	1.40%	1.34%
Non Performing Loan Cover	72%	70%
Capital Adequacy Ratio	30.73%	29.12%

The manner by which the Bank calculates the above indicators is as follows:

- Return on Average Equity ---- Net Income divided by average total capital funds for the period indicated
- Return on Average Assets ---- Net Income divided by average total resources for the period indicated
- Cost to income ratio --- Total Operating expenses divided by the sum of net interest income plus other income
- Non-Performing Loan Ratio --- Total non-performing loans divided by gross loan portfolio
- Non-Performing Loan Cover --- Total allowance for probable loan losses divided by total non-performing loans
- Capital Adequacy Ratio --- Total capital divided by risk-weighted assets

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2012

Liquidity Ratio

The ratio for the year 2012 and 2011 were as follows:

	2012	2011
Net liquid assets	**P5,179,319,352**	P9,266,604,190
Total deposits	**12,000,063,215**	17,280,639,049
Ratio of net liquid assets to total deposits	**43%**	54%

Net liquid assets consist of cash, due from banks, interbank loans, securities held for trade and available for sale less interbank borrowings.

Debt to Equity Ratio

The ratio for the year 2012 and 2011 were as follows:

	2012	2011
Total liabilities	**P15,135,021,854**	P19,636,897,634
Total equity	**6,431,647,362**	6,111,793,524
Ratio of debt to equity	**235%**	321%

Assets-to-Equity Ratio

The ratio for the year 2012 and 2011 were as follows:

	2012	2011
Total assets	**P21,566,669,216**	P25,748,691,158
Total equity	**6,431,647,362**	6,111,793,524
Ratio of total assets to equity	**335%**	421%

Interest Rate Coverage Ratio

The ratios for the year 2012 and 2011 were as follows:

	2012	2011
Income before income tax	**P502,296,440**	P514,031,222
Interest expense	**156,063,178**	230,820,732
Interest coverage ratio	**322%**	223%

Profitability Ratios

The ratios for the year 2012 and 2011 were as follows:

	2012	2011
a.) Net income	**P319,437,125**	P326,809,758
b.) Average total equity	**6,280,251,218**	5,967,551,074
Return on average equity (a/b)	**5.1%**	5.5%
c.) Net income	**P319,437,125**	P326,809,758
d.) Average total assets	**21,550,268,929**	23,217,521,600
Return on average assets (c/d)	**1.5%**	1.4%
e.) Net interest income	**P1,496,333,509**	P1,510,575,512
f.) Average interest earning assets	**19,020,105,081**	20,424,209,020
Net interest margin on average earning assets (e/f)	**7.9%**	7.4%

Additional Management Discussion and Analysis (for those with variances of more than 5% December 31, 2012 vs. December 31, 2011)

Balance Sheet –

Cash and Other Cash Item increased by 6% from Php346M to Php328M on account of higher levels of cash in vault and in ATMs.

Due from Bangko Sentral ng Pilipinas increased by 126% from Php1.9B to Php4.3B brought about by higher SDA (special deposit account) placement.

Due from other banks decreased by 90% from Php4.7B to Php457M mainly due to lower levels of both due from local and foreign banks. Interbank loans decreased to nil from Php2.7B in December 2011.

Financial assets at FVPL increased by 693% due to the increase in the volume of both peso and foreign currency held-for-trading (HFT) – treasury notes. Likewise, available for sale (AFS) investments went up by 109% mainly attributable to higher volume of foreign currency denominated available for sale (AFS) securities.

Loans and receivables (net) went down by 5.44% from Php14.3B to P13.5B due to maturity and full settlement of loans.

Deferred Income Tax (DIT) declined by 34% due to reversal of DIT in relation to the write-off of fully provided loans and receivables.

Property, Plant, & Equipment decreased by 18% from Php247M to Php201M due to various assets reaching full depreciation during the period. Moreover, other assets went down by 23% owing to lower miscellaneous assets as compared last year partly offset by increase in the purchases of software licenses and higher prepaid expenses.

Total deposits slid by 31% from Php17.3B to Php12B attributable to the decrease in time deposits brought by the shift of deposit funds to the higher yielding special deposit accounts (SDAs) with BSP. On the other hand, bills payable went up by 76% from Php1.1B to Php1.9B on account of higher foreign currency interbank borrowings.

Outstanding Acceptances increased by 779% due to the higher volume of local and foreign currency acceptances. Similarly, Manager's Checks went up by 49% from Php24.7M to Php36.9M. Furthermore, Accrued Income Tax Payable increased by 13% as a result of higher provision for income tax. On the other hand, Other Liabilities went down by 7% mainly due to lower accounts payable partly offset by higher miscellaneous liabilities – DBP and withholding taxes payable.

Income Statement (variance analysis for December 31, 2012 vs. December 31, 2011)

Interest income on trading and investment securities dropped by 13.99% to Php137 million from Php159 million last year. Also, interest income on deposits with other banks went down by 66.77% mainly attributable to lower average volume and no interest yield of on due from BSP starting April 2012. Likewise, interest income on interbank loans went down by 23.34% due to the decrease in average volume of both peso and foreign currency interbank loans receivable.

Interest expense on deposits declined by 32.35% from Php230 million to Php156 million due to lower average volume of both peso and foreign currency high cost deposits.

Total trading gains and foreign exchange gains posted a dropped to Php278.6 million, a 9.74% lower than last year. Miscellaneous income as of December 31, 2012 totaled Php87M, a 35.61% increase as compared to the same period last year attributable to higher ATM fee income and recoveries from previously written-off assets.

Provision for impairment and credit losses totaled Php192M as of December 31, 2012, 13.65% increase from Php222M last year.

Security, messengerial and janitorial expenses went down by 5.3% from Php124M to Php117M as compared to the same period last year. Moreover, depreciation and amortization decreased by 8.13% mainly due to various assets reaching full depreciation during the period.

Amortization of software licenses went up by 23.58% from Php27.4 to Php33.9M due to depreciation of new software licenses acquired in the latter part of 2011.

Material Events and Uncertainties:

There are no known trends, demand, commitments, events or uncertainties that will have material impact on the Bank's liquidity. There are also no known material commitments for capital expenditures as of reporting date. There are no known trends, events, uncertainties that had or reasonably expected to have a material favorable or unfavorable impact on income from continuing operations. There are no significant elements of income or loss that arose from the Bank's continuing operations. Likewise there are no seasonal aspects that had material effect on the financial condition or results of operations.

There are no known events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation. Also, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unconsolidated entities or other persons created as of the reporting date.

The Bank's common shares were listed in the Philippines Stock Exchange (PSE) in June 1999. On October 7, 2011, the Board of Directors (BOD) authorized the Bank to file a petition for voluntary delisting with the PSE and to purchase the outstanding shares through a tender offer in accordance with the rules of the PSE and Securities and Exchange Commission (SEC), subject to prior regulatory approval. On December 15, 2011, the Bank obtained approval for the delisting and share buyback through a special stockholders' meeting as required by the Bank's By-Laws. On December 19, 2011, the Bank received the approval of the Monetary Board for the delisting and share buyback. As of January 27, 2012, common shares held by minority stockholders amounting to Php12.7 million were tendered to and reacquired by the Bank. On February 8, 2012, the PSE approved the Bank's petition for voluntary delisting. Official delisting of the Bank's shares from the trading Board became effective on February 24, 2012, after payment of pertinent fees.

3. Plan of Operations

The Bank attributes its stable financial performance to a steady stream of interest revenues, a robust flow of non-interest income from treasury trading activities, strong management of asset quality, and prudent spending of operating expenses to have a better efficiency ratio.

The Bank's overall strategy is to further improve market position and profitability by continuously expanding Personal and Corporate Loan portfolio. Institutional Banking Group shall accelerate portfolio build up via lead roles in corporate finance activities and provide full function banking in the form of cash management services and transaction-based lending. Treasury Group will be expanding its trading business by venturing into other derivative products and offer higher yielding products to sophisticated clientele. Likewise, Retail Banking Group plans to strengthen its channel deployment and sales management model for both unsecured lending and mortgage business and re-engineer branch operations to strengthen risk control and performance management.

With its strong capitalization, the Bank continues to invest in its chosen markets where it is well positioned to build industry-leading franchises. Part of its investments would go to the enhancement of risk management systems and branding initiatives.

Item 7. Financial Statements

The consolidated financial statements and schedules are filed as part of the Form 17-A.

INFORMATION ON INDEPENDENT ACCOUNTANT
(EXTERNAL AUDIT FEES (MC No. 14, Series of 2004)

(a) Audit and Audited-Related Fees

The Bank paid the following audit fees to Sycip Gorres Velayo & Co. (SGV), Manabat Sanagustin & Co. and for the fiscal year indicated:

Fiscal Year	Amount
Sycip Gorres Velayo & Co. (SGV)	
For 2011 paid in 2012	Php640,640.00
For 2012 paid in 2012	Php369,600.00
Manabat Sanagustin & Co.	
For 2012 paid in 2012	Php652,960.00
For 2012 paid in 2013	Php369,600.00

To date, Manabat Sanagustin & Co has unbilled charges of Php123,200.00 for 2012 audit.

(b) Tax & Other Fees

For the fiscal year 2012, the Bank paid a total amount of Php124,646.40 to its Tax Counsels, ACCRA, related to the tax assessments by Bureau of Internal Revenue (BIR).

(c) Audit Committee's Approval Policies and Procedures for the above services

The engagement of the services of the Bank's external auditor is evaluated by the Audit Committee. Consistent with the provisions of the Code of Corporate Governance and the Bank's Audit Committee Charter, the appointment of the external auditor is nominated by the Audit Committee for Board Approval and subsequently for the ratification/approval by the shareholders.

A reconciliation of retained earnings available for dividend declaration which shall present the prescribed adjustments as indicated in Annex 68-C

Schedule II of Exhibit 2, the Bank's Audited Financial Statements for the fiscal year ended as of December 31, 2012, shows such reconciliation and the corresponding footnotes. Schedule II is reproduced on the succeeding page. As mentioned earlier, the Bank's retained earnings are currently fully restricted.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2012

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning[1]		P -
Net income during the year closed to retained earnings	319,437,125	
Less: Non-actual/ unrealized income net of tax		
Equity in net income of associate/ joint venture	-	
Unrealized foreign exchange gain-net (except those attributable to cash and cash equivalents)	(2,336,418)	
Unrealized actuarial gain	-	
Fair value adjustment (marking to market gains)	(614,533)	
Provision for deferred tax asset	(96,569,489)	
Fair value adjustment of Investment Property/AR- ICCS resulting in gain	31,782,419	
Adjustment due to deviation from PFRSs/GAAP - gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRSs	5,734,446	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRSs/GAAP - loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Net income actually earned during the year		381,440,700
Add/Less:		
Dividend declaration during the period	-	
Appropriations of Retained Earnings during the period		
Trust operations	-	
Treasury shares[1, 2]	(30,240)	
BASEL III requirements and ICAAP[1]	(381,410,460)	
Reversal of appropriations	-	
Effects of prior period adjustments	-	(381,440,700)
Total retained earnings, available for dividend declaration[1], ending		**P -**

[1] - At the regular meeting of the BOD held on February 23, 2012, the BOD approved the restriction of the full amount of retained earnings for the following purposes:

i.) to comply with the requirements of the ICAAP pursuant to BSP Circular 639 which took effect on January 1, 2010.

ii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise. And

iii.) to provide for buffer in preparation for BASEL III requirements.

[2] - Amount includes transaction cost.

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

For the calendar years 2010 and 2011, the accounting firm of Sycip Gorres Velayo & Co. (SGV) was appointed as the Bank's principal accountant and external auditor as part of the Bank's corporate governance practice, which requires an evaluation of relationship on a regular basis.

For the calendar year 2012, Manabat Sanagustin & Co. (MS&C), the local firm of KPMG International has been appointed as th Bank's external auditor.

The Bank has no disagreement with any of its external auditors in any matter of accounting principle, practice, or financial disclosures.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer-

1. Directors

The following directors shall hold office from date of elections until the next annual shareholders meeting or their resignation unless sooner terminated or removed in accordance with law:

JACK LEE, a.k.a. Lee Wen-Hung, Taiwanese, assumed his post as Chairman of the Board on October 26, 2011. He obtained his Master's in Business Administration from California State University in 1979 and Bachelor of Arts in Economics from Soochow University, Taipei. He is concurrently the Chairman of Chinatrust Venture Capital Corporation and Chinatrust Asset Management Co. Ltd under Chinatrust Financial Holding Company. Mr. Lee has been with Chinatrust since 1993. He served various positions as the Vice Chairman of Chinatrust Securities Co. Ltd. from 2005 to 2008, the Executive Vice President and General Auditor of Chinatrust Commercial Bank from 2002 to 2005, the Senior Vice President and General Manager of Credit Department and International Department from 1995 to 2002 at the Bank. He is 58 years old.

WILLIAM B. GO, Filipino, has been the Vice Chairman of the Board since October 15, 2001. He also served as concurrent President from April 3, 2008 to January 31, 2009. A Certified Public Accountant, he earned his Bachelor of Science degree from the University of the East and a Master of Science in Business Administration degree from the University of Missouri, Kansas City, U.S.A. He is Chairman of Investors Securities, Inc. and Gama Enterprises, Inc.; Chairman and President of Big Blue Realty Corporation; and President of Serico, Inc.; and, holds various directorship positions in other institutions. He served as the President of Philippine Bank of Communication from 1985 to 1995. Mr. Go has been with Chinatrust since 1995 as President until October 15, 2001 when he was elected Vice Chairman. He is 73 years old.

MARK CHEN, a.k.a. Chen Ching-Ming, Taiwanese, assumed the position of member of the Board of Directors on January 20, 2009 and then as President and CEO on February 1, 2009. Prior to his appointment, he was named Executive Vice President and Chief Banking Operations Officer. He received his Bachelor of Science in Public Finance degree from National Cheng-Chi University and Master of Arts in Finance from the University of Iowa in the USA. He previously worked with ABN AMRO's Taipei Branch, its Asia Pacific Regional Center in Singapore, its subsidiary Bank of Asia in Thailand and its Shanghai Branch, before joining the Chinatrust family in 2006 as Chief Country Officer of Chinatrust Commercial Bank in Vietnam. He is 44 years old.

LARRY HSU, a.k.a. Hsu Chun-Jen, Taiwanese, is a member of the Board. He graduated with a Bachelor's degree in Business from the National Taiwan University. He is currently the Head of Capital Markets Group of Chinatrust Commercial Bank, Ltd. (Taiwan). He was also the Head of Trading of Citibank, Taipei Branch from 1998 to

2003, and Trader of FX, Fixed Income, and Derivatives Trading from 1988 to 1998. He is 50 years old.

** On March 5, 2013, Messr. Larry Hsu resigned as Director and the Board appointed Messr. Philip Ong to serve the unexpired term of Messr. Larry Hsu.*

PETER LIU a.k.a. Liu Chin-Chung, Taiwanese, is re-elected to the Board on February 23, 2012. He obtained his Masters in Business Administration from National Taiwan University of Science & Technology in 2000 and Bachelor of Business Administration from the National Taiwan University in 1976. He is concurrently Executive Vice President and Head of International Country Management Office of Chinatrust Commercial Bank, Ltd. (Taiwan) and Commissioner of Bank Chinatrust Indonesia. Prior to that, he served as President of Bank Chinatrust Indonesia from 2006 to 2011, Managing Director of Chinatrust Commercial Bank from 2003 to 2006, Senior Vice President of Ta Chong Bank from 2000 to 2003, Senior Vice President of Le Credit Lyonnais from 1998 to 2000, Senior Vice President of Chase Manhattan from 1994 to 1998, and Vice President of Deutsche Bank from 1989 to 1994. He was a member of the board of Chinatrust (Philippines) Commercial Bank Corp. from 2003 to 2004. He is 59 years old.

Independent Directors

NG MENG TAM, Filipino, is an Independent Director of Chinatrust Philippines, having been re-elected last October 25, 2007. Being one of the incorporators of Access Banking Corporation, the predecessor of Chinatrust Philippines, he served as Director of the Bank from 1995 to 2001. He holds a Bachelor of Science degree in Physics from the Mapua Institute of Technology. Over the past several years, he has been President of Cinema 2000, Inc., and the President of High Pointe Property, Inc. He is 67 years old.

EDWIN B. VILLANUEVA, Filipino, has been an Independent Director of Chinatrust Philippines since 2002 and is the Chairman of the Audit Committee. He received his Bachelor of Science degree in Management Engineering (cum laude) from Ateneo De Manila University and Master's degree in Business Administration from Wharton School at the University of Pennsylvania. He is the Chairman of VFL Advisors, Inc. and President of ABV Inc., a real estate holding company. He is the Vice Chairman of the Market Governance Board of the Philippine Dealing Exchange. He also holds directorships in the Makati Supermart Group, Testech Inc., and DFNN Inc., Iwave Inc., and CDC/Quadrillion group, and Adviser to the Board of Philratings, Inc. He is 62 years old.

The independent directors have met and continue to meet all the qualifications and possess none of the disqualifications of an Independent Director under the Bank's Code of Corporate Governance, Section 38 of the Securities Regulation Code and relevant BSP rules.

2. *Executive Officers*

The following are the Bank's executive officers:

MARK CHEN, a.k.a. Chen Ching-Ming, Taiwanese, assumed the position of member of the Board of Directors on January 20, 2009 and then as President and CEO on February 1, 2009. Prior to his appointment, he was named Executive Vice President and Chief Banking Operations Officer. He received his Bachelor of Science in Public Finance degree from National Cheng-Chi University and Master of Arts in Finance from the University of Iowa in the USA. He previously worked with ABN AMRO's Taipei Branch, its Asia Pacific Regional Center in Singapore, its subsidiary Bank of Asia in Thailand and its Shanghai Branch, before joining the Chinatrust family in 2006 as Chief Country Officer of Chinatrust Commercial Bank in Vietnam. He is 44 years old.

RAYMUNDO MARTIN M. ESCALONA, Filipino, earned his Bachelor of Science in Commerce degree, Major in Management of Financial Institutions, at De La Salle University. He joined Chinatrust Philippines in January 2008 as Executive Vice President and Head of the Institutional Banking Group. Prior to this, he was the Executive Vice President and Corporate and Institutional Bank Head of Australia and New Zealand Bank, Manila Branch. He has also served as First Vice President and Unit Head of Corporate Banking and Financial Institutions in BDO; Vice President and Head of Large Local Corporates Unit and Deputy Corporate Banking Head in Deutsche Bank AG, Manila Branch; and Assistant Vice President of Relationship Management Unit in Citytrust. He is 52 years old.

EDGARDO A.M. MENDOZA, JR., Filipino, earned his Bachelor of Arts degree in Psychology from De La Salle University, and his Masters in Business Administration degree from the Ateneo de Manila University. He is Senior Vice President and Head of the Human Resource and Administration Group. Prior to joining Chinatrust Philippines in August 2008, he was with the BPO/call center industry for five years, as General Manager for Human Resources of IBM Daksh Philippines, and as Human Resources Director of iTouchPoint Softech Ltd. He also had a 10-year stint with three other banks—the Rizal Commercial Banking Corporation (RCBC), where he was First Vice President and HR Group Head; Philippine Savings Bank (PSBank), where he was First Vice President and HR Group Head; and Solidbank, where he was Vice President and HR Group Head. For more than 10 years, he was also a faculty member of both the Ateneo de Manila University and De La Salle University Graduate School of Business, where he taught Organizational Behavior at the MBA level. He is 53 years old.

MARIA GRETCHEN S. MACABASCO, Filipino, earned her Bachelor of Science in Business Management degree from the Ateneo de Manila University. She is Senior Vice President – Top Tier Head of Institutional Banking Group. Prior to joining the Bank in August 2008, she was Senior Vice President – Head of Trade of Australia and New Zealand Bank, Manila Branch. She also served as First Vice President – Structured Products Group Head at Philippine Bank of Communications. For almost 6 years, she was with ABN AMRO Philippines, her last role was Vice President – Working Capital Head. Prior to that, she worked for almost 16 years with Citibank N.A. Manila where her last job was as a Relationship Manager, Assistant Vice President – Global Relationship Banking. She is 49 years old.

JIMMY ARSENIO Y. SAMONTE, Filipino, a Certified Public Accountant, obtained his Bachelor's degree in Commerce, Major in Accountancy (cum laude), from the University of Santo Tomas. He also attended the Banking Intermediate Industry Training School at the Center for Professional Education of Arthur Andersen and Co.; St. Charles, Illinois, USA. He is Senior Vice President and Head of Internal Audit. He also served as the Bank's Compliance Officer in 2000 to 2001. Prior to joining Chinatrust Philippines, he was Audit Manager of the Financial Services Group of Sycip, Gorres, Velayo & Co. (SGV & Co.), a member firm of Ernst & Young Global Limited. He has been with the Bank since October 1998. He is 43 years old.

CECILIA E. TABUENA, Filipino, graduate of Bachelor of Science in Commerce major in Marketing Management and Bachelor of Arts in Psychology from De La Salle University. She also finished her Master of Business Administration major in Finance from Peter F. Drucker Graduate School of Management, Claremont Graduate University in California, USA. She brings with her almost 20 years of experience first starting as a Money Market Trader at All Asia Capital and Trust Company. She then took up a position in The Long Term Credit Bank of Japan as a Corporate Finance Associate when she was based in Los Angeles, California. Following this US assignment, she returned to the Philippines to join the equities business of Citibank, N.A. as Equities Research Analyst before taking several positions and later on becoming the Vice President and Senior Transactor of the bank's Corporate Finance Department. In 2003, she joined the DCM team of Citi's Emerging Markets Sales and Trading prior to being appointed as the Head of Debt Capital Markets. In 2008, she joined Security Bank Corporation as First Vice President and Head of Fixed Income Securities Distribution. She is 46 years old.

3. Legal Proceedings

None of the directors and executive officers is personally involved in any material pending legal proceedings in any court or administrative agency of the government.

4. Significant Employee

There is no significant employee who is not an Executive Officer and who is expected to make significant contribution to the business.

5. Family Relationship

No family relationship exists among the Bank's directors and executive officers.

Item 10. Executive Compensation

1. Summary Compensation Table of Executive Officers

Name	IN MILLION PESOS			
	Annual Salary	Bonus	Others	Total
2011				
Executives (8)	29.41	6.95	5.19	41.55
2012				
Executives (8)	32.83	12.04	588	45.47
2013				
Executives (8	33.97	10.18	572	44.72
(Estimate)				

In 2012, the Bank paid approximately P45,470,084.52 million as a total compensation to the following executive officers:

Mark Chen	President and CEO
William B. Go	Vice-Chairman
Raymundo Martin Escalona	Executive Vice-President
Victor Q. Lim	Executive Vice-President (resigned Nov. 15, 2012)
Edgardo A.M. Mendoza, Jr.	Senior Vice-President
Ma. Gretchen S. Macabasco	Senior Vice-President
Jimmy Arsenio Y. Samonte	Senior Vice-President
Cecilia E. Tabuena	Senior Vice-President

For the year 2013, it is estimated that approximately P44,726,334.75 million will be paid to the following executive officers:

Mark Chen	President and CEO
William B. Go	Vice-Chairman
Raymundo Martin Escalona	Executive Vice-President
Edgardo A.M. Mendoza, Jr.	Senior Vice-President
Ma. Gretchen S. Macabasco	Senior Vice-President
Jimmy Arsenio Y. Samonte	Senior Vice-President
Cecilia E. Tabuena	Senior Vice-President
Oliver D. Jimeno	Senior Vice-President (from January 1, 2013)

2. Compensation of Directors

The aggregate compensation by the Bank to its Directors, excluding the above executives and other officers, amounted to approximately P7.22 million in 2012. For the year 2013, it is estimated that approximately P8.5 million will be paid to the Directors.

3. *Employment Contract*

There is no employment contract between bank and the named Executive Officers.

4. *Warrants and Options*

There are no warrants or options held by Bank's President, the named executive officers and all officers and directors as a group.

5. *Standard Agreements*

Except for the per diem for attendance in the Board and Committee meetings and the Director's Fee under Sections 9 and 10, Article III of the Bank's By-Laws, as amended, there is no other standard arrangement by which the directors are compensated, or are to be compensated, directly or indirectly, for any services provided as a director for the last completed fiscal year and the ensuing year.

6. *Other Arrangements*

There are no other arrangement, including consultancy contracts pursuant to which any director of the registrant's was compensated, or is to be compensated, directly or indirectly, during the registrant's last completed fiscal year, and the ensuing year, for any service provided as a director.

Item 11. Security Ownership of Certain Beneficial Owners and Management

As of February 28, 2013, the following is the person or entity known to the Bank as owning more than 5% of the Bank's shares:

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	**Chinatrust Commercial Bank, Ltd. 3 Sung Shou Road Taipei, Taiwan, R.O.C.**	**Chinatrust Commercial Bank, Ltd.**	**Taiwanese**	**246,495,812**	**99.41%**

Chinatrust Commercial Bank, Ltd. or CTCB is wholly-owned by Chinatrust Financial Holding Company, Ltd. (CFHC).

CTCB through a resolution of its Board of Directors may authorize the Bank's Chairman, Jack Lee, and such other persons as it may deem fit to exercise the voting power over its shareholdings for and on its behalf.

1. *Group Owning More Than 5% of Registrant's Voting Securities*

Except for CTCB, there is no other person or group known to the Bank to be directly or indirectly the record or beneficial owner of more than 5% of any class of registrant's voting securities.

2. *Security Ownership of Management as of February 28, 2013*

a. *Directors*

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	William B. Go 2277 Magnolia St., Dasmariñas Village, Makati City	William B. Go	Filipino	54	0.00
Common	Jack Lee 19F Fort Legend Towers, Third Avenue corner 31st St., Bonifacio Global City, Taguig City	Jack Lee	Taiwanese	1	0.00
Common	Mark Chen 19F Fort Legend Towers, Third Avenue corner 31st St., Bonifacio Global City, Taguig City	Mark Chen	Taiwanese	1	0.00
Common	Peter Liu 3 Sung Shou Road Taipei, Taiwan, R.O.C.	Peter Liu	Taiwanese	1	0.00
Common	Larry Hsu 3 Sung Shou Road Taipei, Taiwan, R.O.C.	Larry Hsu	Taiwanese	1	0.00
Common	Ng Meng Tam Unit 508, ITC Building, 337 Sen. Gil Puyat Ave. Makati City	Ng Meng Tam	Filipino	1	0.00
Common	Edwin B. Villanueva VFL Advisors, Inc. 15F, Citibank Tower, 8741 Paseo de Roxas, Makati City	Edwin B. Villanueva	Filipino	1	0.00
				60	

b. *Executive Officers*

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Mark Chen 19F Fort Legend Towers, Third Avenue corner 31st St., Bonifacio Global City, Taguig City	Mark Chen	Taiwanese	1	0.00
				1	

c. *Directors and Officers*

The aggregate shareholding of the directors and executive officers amounted to 60 shares of the Bank's total outstanding shares.

d. Change in Control.

There is no change in control of registrant and no change in control has occurred since the beginning of the last fiscal year.

There are also no arrangements known to the Bank, which may result in a change of control of registrant.

Item 12. Certain Relationships and Related Transactions

The Bank, in its regular course of trade and business, enters into transactions with its Directors, Officers, Stockholders, and Related Interests (DOSRI) involving mainly loans and these are disclosed to the *Bangko Sentral ng Pilipinas* (BSP) in accordance with the Manual of Regulations for Banks.

All transactions of the Bank, whether with DOSRI, related parties or non-related parties, are conducted and entered in the Bank's best interest and on "arm's length basis".

There are no parties that fall outside the definition of "Related Parties" under SFAS/IAS No. 24 with whom the Bank or its related parties have a relationship that enables such parties to negotiate terms and material transactions that may not be available from other more clearly independent parties on an "arm's length basis".

Note 26 page 82 of the Bank's Audited Financial Statements for the fiscal year ended as of December 31, 2012, attached as Exhibit 2 of this Report, discusses the nature of such Related Party Transactions, which discussion is incorporated hereto by reference.

Disclosures required by Annex 68-E of the amended Securities Regulation Code Rule 68 and 68.1 are in Schedules IV and V of said Audited Financial Statements.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

The Bank has adopted a Manual of Corporate Governance, which is being continually revised to align with the world's best and leading practices on corporate governance and comply with latest regulatory issuances.

Conformably with existing rules and regulations, its Articles of Incorporation and By-Laws, and Manual on Corporate Governance, the Board organized five (5) committees to assist it in governance matters consisting of the following: (1) Executive Committee; (2) Nomination, Remuneration and Governance Committee; (3) Audit Committee; (4) Risk Management Committee; and (5) Trust Committee.

- The Executive Committee is headed by Jack Lee as Chairman, with William B. Go and Mark Chen as Members. It is authorized to act on behalf of the full Board as to urgent matters that arise between its regular meetings. The committee shall have the power to direct and transact all business and affairs of the Bank which otherwise may come to the Board except as limited by the Bank's Articles of Incorporation or By-Laws or by applicable law or regulation on decisions on any matter related to mergers and acquisitions of the Bank, to issuance of debts instruments and of share capital of the Bank. It is also authorized to act immediately in order to protect the Bank or its important interests from loss or damage and these acts and decisions shall be reported and ratified at the next board meeting.

- The Nomination, Remuneration and Governance Committee is headed by Jack Lee as Chairman, with William B. Go, Edwin B. Villanueva and Ng Meng Tam as Members. The NRGC which also functions as the Bank's "Committee on Corporate Governance" and "Compensation and Remuneration Committee" is responsible for ascertaining that the Board seats, including those of Independent Directors, as well as other positions that necessitate Board appointment, are filled by individuals who meet the required qualifications as set forth in the by-laws of the Bank. It oversees the periodic performance evaluation of the Board, its Committees, and the Bank's Executive Management, as well as conducts an annual self-evaluation of its performance. In its assessment of a director's performance, it considers competence, candor, attendance, preparedness, and participation in meetings. It monitors not only the Board's performance, effectiveness, and observance of corporate governance principles, but also those of the various other committees and the Executive Management of the Bank. Further, it adopts guidelines for directors serving on multiple boards and makes recommendations to the Board on the continuing education of directors, their assignment to Board committees, succession, and remuneration. It also approves the hiring and promotion of the Bank's Group Heads. Likewise, it is also involved in Human Resources matters such as the review and revision of the Performance Management System, Management Succession Plan, Organizational Structure, Headcount Management, Compensation and Benefits Policy, Merit Increase, and Performance Bonus distribution.

- The Audit Committee is headed by Independent Director Edwin B. Villanueva as Chairman, with Peter Liu and Ng Meng Tam as Members. The members of the

Audit Committee must possess accounting, auditing, or related financial management expertise and experience. Tasked primarily with assisting the Board in fulfilling its oversight responsibilities, the Audit Committee reviews the Bank's financial information, its systems of internal controls and risk management, the audit process, and compliance with significant applicable legal, ethical, and regulatory requirements. It monitors the Bank's compliance with approved internal policies and controls, as well as statutory regulations, emphasizing an accounting system that is 100% compliant with International Accounting Standards. The Committee facilitates free and open communication among Management, Compliance, Risk Management, Internal Audit, the external auditors, BSP examiners, and the Committee. It enjoys sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. It is also empowered, among others, to endorse to the shareholders the appointment of the Bank's external auditors and oversee external audit engagements; review and comment on internal and external audit reports; and resolve financial reporting disputes between management and the auditor.

- The Risk Management Committee is headed by Peter Liu as Chairman, with Jack Lee, William B. Go, Mark Chen and Larry Hsu as Members. Responsible for the development and oversight of the Bank's Risk Management Program, the Risk Management Committee oversees the system of limits to discretionary authority that the Board delegates to management. It is tasked to ensure that the system remains effective, that the limits are observed, and that immediate corrective actions are taken whenever limits are breached. To achieve this, the Committee takes on the critical role of identifying and evaluating the Bank's risk exposures, ensuring that the appropriate risk management strategies and plans are in place and ready to be executed as necessary, and evaluating the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. Hand in hand with the Chief Risk Officer which functions under the auspices of the Committee, it performs oversight functions in managing credit, market, liquidity, and operational risks.

- The Trust Committee is headed by Larry Hsu as Chairman, with Jack Lee, William B. Go, Mark Chen the Trust Officer as Members. It reviews and approves the quality and movement of the Bank's trust assets, including the opening and closing of trust and other fiduciary accounts; the initial review of assets placed under the trustee's or fiduciary's custody; the investment, reinvestment, and disposition of funds or property; the review and approval of transactions between trust and/or fiduciary accounts, and of acceptable fixed income and equity investments, including the investment outlets. Further, it reviews trust and other fiduciary accounts at least once yearly to determine the advisability of retaining or disposing of the trust or fiduciary assets, and/or whether the account is being managed in accordance with the instrument creating the trust or other fiduciary relationship. It reports to the Board any changes in regulations, market conditions, and other factors that may affect the trust business.

The Bank is generally in compliance with adopted leading practices on good corporate governance. Taking into account global best practices, the Bank constantly updates its tools for monitoring the performance of the Board and individual Board members, and the process by which it determines whether a director conducts fair business transactions, devotes necessary time and attention to discharge his duties, acts judiciously, exercises independent judgment, has working legal knowledge affecting the Bank, observes confidentiality and ensures soundness, effectiveness and adequacy of the Bank's risk management system and control environment.

The Bank has no knowledge of any instance of non-compliance with its Manual of Corporate Governance by the Board of Directors or its members, nor by the Bank's officers or employees.

The Bank is committed to ensuring that the corporate governance framework supports the equitable treatment of all shareholders, including minority shareholders. All shareholders are entitled to have the opportunity to obtain effective redress for any violation of their rights.

PART V - EXHIBITS AND SCHEDULES

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

Exhibits

The exhibits are incorporated by reference as set forth in the index attached hereto.

Reports on SEC Form 17-C

The following reports on SEC Form 17-C were filed during the last six (6) months period covered by this report:

Date Filed	Item
July 2, 2012	Results of Annual Shareholders' Meeting and Organizational Meeting of the Board of Directors
July 5, 2012	Certification of Independent Director
July 6, 2012	Amended Results of Annual Shareholders' Meeting and Organizational Meeting of the Board of Directors
November 6, 2012	Resignation of RBG Head
December 10, 2012	Dissolution: Chinatrust Forex Corporation
December 12, 2012	Death of Dr. Jeffrey L.S. Koo
December 28, 2012	Announcement of new Chairman and Vice Chairman of CTFC and CTCB

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Taguig APR 15 2013 day of April 2013.

By:

MARK CHEN
President and CEO
Principal Executive Officer
TIN: 263-636-675

ANDRE P. PAYAWAL, FVP
Principal Financial Officer, Comptroller &
Principal Accounting Officer
TIN: 150-031-779

ATTY. MARITESS PARILLA-ELBINIAS, VP
Legal Department Head and
Assistant Corporate Secretary
TIN: 135-899-542

The Bank has no Principal Operating Officer.

SUBSCRIBED AND SWORN to before me this APR 15 2013 day of April 2013 affiants exhibiting to me their Passport/SSS Nos., as follows:

NAMES	PASSPORT/SSS I.D. NO.	DATE OF ISSUE	PLACE OF ISSUE
Mark Chen	Passport # 303036105	June 13, 2011	Taiwan
Andre P. Payawal	SSS ID No. 03-4772791-0		
Atty. Maritess P. Elbinias	SSS ID No. 03-8177518-0		

Doc. No. 92;
Page No. 20;
Book No. V;
Series of 2013.

ATTY. MARY ANGELINE S. TOL
NOTARY PUBLIC FOR TAGUIG CITY
UNTIL DECEMBER 31, 2013
16/F Fort Legend Towers, Third Ave. corner 31st St.
Bonifacio Global City, Taguig City
APPT. NO. 71 / ROLL NO. 51630
PTR NO. A-1720228/01-03-13/TAGUIG CITY
IBP NO. 914264/01-03-13/CAVITE

EXHIBITS AND ANNEXES

1. **STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

2. **AUDITED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2012 and 2011**

COVER SHEET

A S O 9 5 0 0 8 8 1 4 A

S.E.C. Registration Number

C H I N A T R U S T (P H I L I P P I N E S)

C O M M E R C I A L B A N K C O R P O R A T I O N

(Company's Full Name)

F o r t L e g e n d T o w e r s T h i r d

A v e n u e c o r n e r 3 1 s t S t r e e t

B o n i f a c i o G l o b a l C i t y

T a g u i g C i t y

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

Andre P. Payawal

Contact Person

811-8900

Company Telephone Number

1 2 — *Month*

3 1 — *Day*

A A F S

FORM TYPE

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION

FINANCIAL STATEMENTS
December 31, 2012
(With Comparative Figures for 2011and 2010)

KPMG

Manabat Sanagustin & Co., CPAs
The KPMG Center, 9/F
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Makati City 1226, Metro Manila, Philippines

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Internet www.kpmg.com.ph
E-Mail manila@kpmg.com.ph

Branches: Bacolod · Cebu · Iloilo · Subic

REPORT OF INDEPENDENT AUDITORS

The Stockholders and the Board of Directors
Chinatrust (Philippines) Commercial Bank Corporation
Fort Legend Towers, Third Avenue corner 31st Street
Bonifacio Global City, Taguig City

Report on the Financial Statements

We have audited the accompanying financial statements of Chinatrust (Philippines) Commercial Bank Corporation (the "Bank"), which comprise the statement of financial position as at December 31, 2012, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks), and for such internal control as management determines is necessary to enable the preparation of these 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 audit. We conducted our audit 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 auditors' 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 auditors consider 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.

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Chinatrust (Philippines) Commercial Bank Corporation as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the Philippines for banks as described in Note 2 to the financial statements.

Other Matter

The accompanying financial statements of Chinatrust (Philippines) Commercial Bank Corporation as at and for the years ended December 31, 2011 and 2010 prepared in accordance with Philippine Financial Reporting Standards were audited by other auditors, whose report thereon dated February 23, 2012, expressed an unqualified opinion on those statements.

Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011 of the Bureau of Internal Revenue (BIR)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Notes 30 and 31 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 management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MANABAT SANAGUSTIN & CO., CPAs

Carmel Lynne Balde

CARMEL LYNNE M. BALDE
Partner
CPA License No. 0099677
BSP Accredited, Group A, valid until December 17, 2014
SEC Accreditation No. 1055-A, Group A, valid until January 4, 2015
Tax Identification No. 205-133-498
BIR Accreditation No. 08-001987-24-2011
Issued February 4, 2011; valid until February 3, 2014
PTR No. 3669502MC
Issued January 2, 2013 at Makati City

March 5, 2013
Makati City, Metro Manila

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012
(With Comparative Figures for 2011)

	Note	2012	2011
ASSETS			
Cash and Other Cash Items	*13, 17*	**P346,343,327**	P328,042,939
Due from Bangko Sentral ng Pilipinas	*13, 17,29*	**4,329,274,097**	1,913,242,125
Due from Other Banks	*17, 26*	**456,845,726**	4,676,565,861
Interbank Loans Receivable	*17, 29*	**-**	2,721,935,658
Financial Assets at Fair Value through Profit or Loss	*7, 17*	**635,982,502**	80,195,144
Available-for-Sale Investments	*7, 17*	**1,340,223,700**	642,622,463
Held-to-Maturity Investments	*7, 17*	**332,696,411**	264,795,279
Loans and Receivables - net	*8, 12, 17, 26*	**13,529,637,156**	14,324,030,755
Property and Equipment - net	*9, 17*	**201,440,215**	246,688,777
Investment Properties - net	*10, 17*	**4,428,001**	4,337,633
Deferred Tax Assets - net	*17, 21*	**186,214,223**	282,783,712
Other Assets	*11, 17*	**203,583,858**	263,450,812
		P21,566,669,216	P25,748,691,158

	Note	2012	2011
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit Liabilities	*13, 17*		
Demand		**P4,306,942,401**	P4,685,833,626
Savings		**2,199,744,647**	2,339,407,911
Time		**5,493,376,167**	10,255,397,512
		12,000,063,215	17,280,639,049
Derivative Liabilities	*17, 27*	**3,713,623**	26,169
Bills Payable	*14, 17*	**1,929,350,000**	1,096,000,000
Outstanding Acceptances	*17*	**12,132,312**	1,380,960
Manager's Checks	*17*	**36,868,551**	24,679,175
Accrued Interest, Taxes and Other Expenses	*15, 17*	**235,036,751**	241,869,721
Income Tax Payable	*17, 21*	**8,934,371**	7,895,166
Other Liabilities	*16, 17*	**908,923,031**	984,407,394
		[illegible]	19,636,897,634

Forward

	Note	**2012**	2011
EQUITY			
Capital Stock	*18*	**P2,479,687,310**	P2,479,687,310
Treasury Stock	*18*	**(15,951,674)**	-
Additional Paid-in Capital	*18*	**53,513,675**	53,513,675
Retained Earnings	*18*	**3,871,813,912**	3,552,376,787
Statutory Reserve	*23*	**4,981,159**	4,981,159
Cumulative Translation Adjustments		**(8,123,371)**	9,004,913
Net Unrealized Gain on Available-for-Sale Investments	*7*	**45,726,351**	12,229,680
		6,431,647,362	6,111,793,524
		P21,566,669,216	P25,748,691,158

See Notes to the Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012
(With Comparative Figures for 2011 and 2010)

	Note	**2012**	2011	2010
INTEREST INCOME				
Loans and receivables	*8, 26*	**P1,478,064,810**	P1,521,831,444	P1,714,427,812
Trading and investment securities	*7*	**137,270,394**	159,605,331	159,908,823
Interbank loans receivable		**30,249,686**	39,460,228	26,283,972
Deposits with Bangko Sentral ng Pilipinas and other banks	*26*	**6,811,797**	20,499,241	50,574,980
		1,652,396,687	1,741,396,244	1,951,195,587
INTEREST EXPENSE				
Deposit liabilities	*13*	**150,298,165**	224,806,799	390,014,069
Bills payable and other borrowings	*14, 26*	**5,765,013**	6,013,933	5,204,360
		156,063,178	230,820,732	395,218,429
NET INTEREST INCOME		**1,496,333,509**	1,510,575,512	1,555,977,158
Trading and securities gain - net	*7*	**267,212,623**	314,220,517	250,672,326
Service fees and commission income	*22*	**203,396,339**	197,521,883	181,550,953
Foreign exchange gain (loss) - net	*7*	**11,408,319**	(5,533,095)	56,069,734
Miscellaneous - net	*22, 29*	**87,070,505**	64,206,128	54,969,615
TOTAL OPERATING INCOME		**2,065,421,295**	2,080,990,945	2,099,239,786
Compensation and fringe benefits	*19, 26*	**620,227,967**	592,735,105	472,133,633
Provision for credit losses	*12,29*	**192,069,077**	222,439,747	297,083,702
Occupancy and other equipment-related costs	*20*	**192,180,099**	187,243,780	188,245,354
Taxes and licenses	*21*	**128,437,614**	131,253,016	141,185,440
Security, messengerial and janitorial expenses		**117,031,140**	123,545,588	147,485,958
Depreciation and amortization	*9,10*	**81,374,675**	88,578,720	71,041,491
Amortization of computer software costs	*11*	**33,880,949**	27,417,262	19,485,106
Miscellaneous	*22*	**197,923,334**	193,746,505	180,714,794
TOTAL OPERATING EXPENSES		**1,563,124,855**	1,566,959,723	1,517,375,478
INCOME BEFORE INCOME TAX		**502,296,440**	514,031,222	581,864,308
PROVISION FOR INCOME TAX	*21*	**182,859,315**	187,221,464	171,886,334
NET INCOME		**P319,437,125**	P326,809,758	P409,977,974
Basic/Diluted Earnings Per Share	*28*	**P1.29**	P1.32	P1.65

See Notes to the Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012
(With Comparative Figures for 2011 and 2010)

	Note	**2012**	2011	2010
NET INCOME FOR THE YEAR		**P319,437,125**	P326,809,758	P409,977,974
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR				
Net unrealized gain (loss) on available-for-sale investments	*7*	**33,496,671**	17,855,631	(1,535,179)
Translation adjustment		**(17,128,284)**	24,034,390	(8,586,702)
		16,368,387	41,890,021	(10,121,881)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P335,805,512**	P368,699,779	P399,856,093

See Notes to the Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012
(With Comparative Figures for 2011 and 2010)

	Capital Stock (Note 18)	**Treasury Stock** (Note 18)	**Additional Paid-in Capital** (Note 18)	**Retained Earnings** (Note 18)	**Statutory Reserve** (Note 23)	**Cumulative Translation Adjustments**	**Net Unrealized Gain (Loss) on Available-for-Sale Investments** (Note 7)	**Total**
Balance at January 1, 2012	**P2,479,687,310**	**P -**	**P53,513,675**	**P3,552,376,787**	**P4,981,159**	**P9,004,913**	**P12,229,680**	**P6,111,793,524**
Total comprehensive income for the year	**-**	**-**	**-**	**319,437,125**	**-**	**(17,128,284)**	**33,496,671**	**335,805,512**
Treasury shares acquisition	**-**	**(15,951,674)**	**-**	**-**	**-**	**-**	**-**	**(15,951,674)**
Balance at December 31, 2012	**P2,479,687,310**	**(P15,951,674)**	**P53,513,675**	**P3,871,813,912**	**P4,981,159**	**(P8,123,371)**	**P45,726,351**	**P6,431,647,362**
Balance at January 1, 2011	P2,479,687,310	P -	P53,513,675	P3,226,129,591	P4,418,597	(P15,029,477)	(P5,625,951)	P5,743,093,745
Total comprehensive income for the year	-	-	-	326,809,758	-	24,034,390	17,855,631	368,699,779
Trust reserves	-	-	-	(562,562)	562,562	-	-	-
Balance at December 31, 2011	P2,479,687,310	P -	P53,513,675	P3,552,376,787	P4,981,159	P9,004,913	P12,229,680	P6,111,793,524
Balance at January 1, 2010	P2,479,687,310	P -	P53,513,675	P2,816,151,617	P4,418,597	(P6,442,775)	(P4,090,772)	P5,343,237,652
Total comprehensive income for the year	-	-	-	409,977,974	-	(8,586,702)	(1,535,179)	399,856,093
Trust reserves	-	-	-	-	-	-	-	
Balance at December 31, 2010	P2,479,687,310	P -	P53,513,675	P3,226,129,591	P4,418,597	(P15,029,477)	(P5,625,951)	P5,743,093,745

See Notes to the Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
(With Comparative Figures for 2011 and 2010)

	Note	**2012**	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P502,296,440**	P514,031,222	P581,864,308
Adjustments for:				
Mark-to-market loss (gain) on trading securities	*7*	**1,692,096**	(3,606,172)	(3,534,789)
Provision for credit losses	*12*	**192,069,077**	222,439,747	297,083,702
Foreign exchange revaluation on trading and investment securities		**32,122,566**	24,034,391	68,420,490
Foreign exchange revaluation on bills payable		**(69,750,000)**	-	(33,040,000)
Amortization of net discount on available-for-sale and held-to-maturity investments		**(83,260,464)**	(12,371,645)	(108,081,366)
Amortization of deferred charges		**811,167**	849,545	932,581
Amortization of computer software costs	*11*	**33,880,949**	27,417,262	19,485,106
Depreciation and amortization	*9, 10*	**81,374,675**	88,578,720	71,041,491
Loss (gain) on disposal of property, plant and equipment		**(387,333)**	(393,965)	6,172,564
Dividend income	*22*	**2,241,223**	(632,800)	(508,600)
Changes in operating assets and liabilities:				
Decrease (increase) in amounts of:				
Financial assets at fair value through profit or loss		**(557,479,454)**	598,890,298	29,083,319
Loans and receivables		**606,603,152**	1,566,997,931	413,083,217
Other assets		**71,821,779**	(68,092,904)	6,634,693
Increase (decrease) in amounts of:				
Deposit liabilities		**(5,280,575,834)**	372,892,734	(60,411,955)
Outstanding acceptances		**10,751,352**	(15,866,382)	(1,749,646)
Manager's checks		**12,189,376**	(7,383,789)	(8,098,731)
Accrued interest, taxes and other expenses		**(6,832,970)**	(26,874,976)	(67,033,951)
Derivative liabilities		**3,687,454**	(4,570,458)	3,928,316
Other liabilities		**(75,484,359)**	113,021,639	127,255,914
Net cash generated from (used in) operations		**(4,522,229,108)**	3,389,360,398	1,342,526,663
Income taxes paid		**(85,250,622)**	(104,727,575)	(98,919,963)
Net cash provided by (used in) operating activities		**(4,607,479,730)**	3,284,632,823	1,243,606,700

Forward

	Note	2012	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Available-for-sale investments		**(P2,752,407,708)**	(P1,578,856,017)	(P4,145,318,390)
Property and equipment	*9*	**(44,992,196)**	(91,639,796)	(165,461,194)
Held-to-maturity investments		**(258,953,647)**	(67,038,450)	(94,971,142)
Computer software costs	*11*	**(46,864,685)**	(50,455,175)	(70,605,535)
Proceeds from disposals of:				
Available-for-sale investments		**2,132,349,825**	2,341,768,674	4,335,295,947
Held-to-maturity investments		**97,147,717**	-	-
Property and equipment	*9*	**9,380,790**	6,653,757	26,791,778
Proceeds from maturity of held-to-maturity investments		**83,867,728**	53,232,988	41,460,000
Dividends received	*22*	**(6,519,853)**	632,800	508,600
Net cash provided by (used in) investing activities		**(786,992,029)**	614,298,781	(72,299,936)
CASH FLOWS FROM FINANCING ACTIVITIES				
Purchase of treasury shares	*18*	**(15,951,674)**	-	-
Availments of bills payable		**56,207,462,509**	28,219,126,089	30,020,328,594
Settlement of bills payable		**(55,304,362,509)**	(27,693,046,089)	(30,064,168,594)
Net cash provided by (used in) financing activities		**887,148,326**	526,080,000	(43,840,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(4,507,323,433)**	4,425,011,604	1,127,466,764
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items		**328,042,939**	334,084,617	319,525,532
Due from Bangko Sentral ng Pilipinas		**1,913,242,125**	1,742,903,803	1,759,190,000
Due from other banks		**4,676,565,861**	615,146,557	1,855,613,683
Interbank loans receivable		**2,721,935,658**	2,522,640,002	152,979,000
		9,639,786,583	5,214,774,979	4,087,308,215
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items		**346,343,327**	328,042,939	334,084,617
Due from Bangko Sentral ng Pilipinas		**4,329,274,097**	1,913,242,125	1,742,903,803
Due from other banks		**456,845,726**	4,676,565,861	615,146,557
Interbank loans receivable		**-**	2,721,935,658	2,522,640,002
		P5,132,463,150	P9,639,786,583	P5,214,774,979
OPERATIONAL CASH FLOWS FROM INTEREST				
Interest received		**P1,650,761,881**	P1,833,267,962	P2,051,362,090
Interest paid		**(187,236,165)**	(278,767,520)	(476,934,425)
		P1,463,525,716	P1,554,500,442	P1,574,427,665

See Notes to the Financial Statements.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

(With Comparative Figures for 2011 and 2010)

1. Organization

Chinatrust (Philippines) Commercial Bank Corporation (the "Bank") is a 99.41%-owned entity of Chinatrust Commercial Bank Ltd., Taipei ("Parent Bank"), a Taiwan-based commercial bank. The Bank was incorporated as a domestic commercial bank on September 7, 1995 under the name of Access Banking Corporation and started business operations on September 26, 1995. It was renamed as Chinatrust (Philippines) Commercial Bank Corporation in January 1996. The Bank was organized to provide commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, and trust services. In addition, the Bank is licensed to engage in regular financial derivatives as a means of reducing and managing the Bank's and its customers' foreign exchange exposure. The ultimate parent of the Bank is Chinatrust Financial Holding Company Ltd., which was incorporated in Taiwan.

The Bank's principal place of business is located at Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City.

The Bank's common shares were listed in the Philippines Stock Exchange (PSE) in June 1999. On October 7, 2011, the Board of Directors (BOD) authorized the Bank to file a petition for voluntary delisting with the PSE and to purchase the outstanding shares through a tender offer in accordance with the rules of the PSE and Philippine Securities and Exchange Commission (SEC), subject to prior regulatory approval. On December 15, 2011, the Bank obtained approval for the delisting and share buyback through a special stockholders' meeting as required by the Bank's By-Laws. On December 19, 2011, the Bank received the approval of the Monetary Board for the delisting and share buyback. As of January 27, 2012, common shares held by minority stockholders amounting to P12.7 million were tendered to and reacquired by the Bank. On February 8, 2012, the PSE approved the Bank's petition for voluntary delisting. Official delisting of the Bank's shares from the Trading Board became effective on February 24, 2012, after payment of pertinent fees.

2. Basis of Preparation and Statement of Compliance

Statement of Compliance

In 2012, the financial statements of the Bank have been prepared in compliance with the accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks. As discussed in Note 7, in 2012, the Bank participated in a bond exchange transaction under the liability management program - buyback invitation of the Philippine Government. The Philippine SEC granted an exemptive relief from the existing tainting rule on held-to-maturity (HTM) investment under Philippine Accounting Standard (PAS 39), *Financial Instruments: Recognition and Measurement* while the Bangko Sentral ng Pilipinas (BSP) also provided the same exemption for prudential reporting to the participants. Following this exemption, the basis of preparation of the financial statements of the availing entities shall not be Philippine Financial

Reporting Standards (PFRSs) but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the full PFRSs. Except for the aforementioned exemption in 2012, the financial statements of the Bank have been prepared in compliance with the PFRSs.

In 2011, the financial statements have been prepared in compliance with PFRSs.

Basis of Measurement

The financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments, and derivative financial instruments which are measured at fair value.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and the Foreign Currency Deposit Unit (FCDU). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

Functional and Presentation Currency

The financial statements are presented in Philippine peso, the functional currency of the Bank. 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 Note 3 for the accounting policy on foreign currency translation). All financial information presented in Philippine peso has been rounded off to the nearest peso, except otherwise indicated.

Approval of Issuance of Financial Statements

The financial statements of the Bank were authorized for issue by the BOD of the Bank on March 5, 2013.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the adoption of the new and revised financial reporting standards as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Bank has adopted the following amendments to standards and interpretations starting January 1, 2012 and, accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Bank's financial statements.

Adopted Effective January 1, 2012

The Bank has adopted the following PFRSs starting January 1, 2012 and, accordingly, changed its accounting policies in the following areas:

- *Disclosures - Transfers of Financial Assets* (Amendments to PFRS 7), require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these financial statements. Except otherwise indicated, none of these is expected to have a significant effect on the financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

To be Adopted on January 1, 2013

- *Disclosures: Offsetting Financial Assets and Financial Liabilities* (Amendments to PFRS 7). These amendments include minimum disclosure requirements related to financial assets and financial liabilities that are:

  - offset in the statement of financial position; or
  - subject to enforceable master netting arrangements or similar agreements.

  They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the statement of financial position. These amendments will be effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods and are to be applied retrospectively.

- PFRS 13, *Fair Value Measurement*

  PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

  This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- *Annual Improvements to PFRSs 2009 - 2011 Cycle* - various standards contain amendments to five standards with consequential amendments to other standards and interpretations. The amendments are effective for annual periods beginning on or after January 1, 2013. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the financial statements of the Bank:

  - PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* - Repeated Application of PFRS 1. The amendment clarifies the applicability of PFRS 1 to an entity that has applied PFRSs in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with PFRSs. If such an entity presents its financial statements in accordance with PFRSs again, then it is now allowed, rather than required, to apply PFRS 1. A repeated adopter that elects not to apply PFRS 1 in the above situation has to apply PFRSs retrospectively in accordance with PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, as if it had never stopped applying PFRSs. Such an entity should also disclose the reason for electing to apply PFRSs on a continuous basis. Irrespective of whether the repeated adopter applies PFRS 1, it is required to disclose the reasons why it stopped applying PFRSs and is resuming the application of PFRSs. The IASB has also clarified that the above option is available regardless of whether PFRS 1 existed at the time the entity previously applied PFRSs. For example, the above option is available to a repeated adopter that previously applied Philippine Interpretation SIC-8 *First-time Application of PASs as the Primary Basis of Accounting*.

- PAS 1, *Presentation of Financial Statements - Comparative Information beyond Minimum Requirements.* This is amended to clarify that only one comparative period - which is the preceding period - is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with PFRSs.

  For example, if an entity elects to present a third statement of comprehensive income, then this additional statement should be accompanied by all related notes, and all such additional information should be in accordance with PFRSs. However, the entity need not present:

  - other primary statements for that additional comparative period, such as a third statement of cash flows; or
  - the notes related to these other primary statements.

- PAS 1 - *Presentation of the Opening Statement of Financial Position and Related Notes*. This is amended to clarify that:

  - the opening statement of financial position is required only if:
    - a change in accounting policy;
    - a retrospective restatement; or
    - a reclassification has a material effect upon the information in that statement of financial position;
  - except for the disclosures required under PAS 8, notes related to the opening statement of financial position are no longer required; and
  - the appropriate date for the opening statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements.

  The amendment explains that the requirements for the presentation of notes related to additional comparative information and those related to the opening statement of financial statements are different, because the underlying objectives are different.

  Consequential amendments have been made to PFRS 1 and PAS 34, *Interim Financial Reporting.*

- PAS 32, *Financial Instruments Presentation - Income Tax Consequences of Distributions*. This is amended to clarify that PAS *12, Income Taxes* applies to the accounting for income taxes relating to:

    - distributions to holders of an equity instrument; and
    - transaction costs of an equity transaction.

    This amendment removes a perceived inconsistency between PAS 32 and PAS 12. Before the amendment, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax. However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss.

    A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments.*

▪ *Presentation of Items of Other Comprehensive Income* (Amendments to PAS 1). The amendments:

- require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss;
- do not change the existing option to present profit or loss and other comprehensive income in two statements; and
- change the title of the statements of comprehensive income to the statements of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRSs continue to apply in this regard. These amendments are effective for annual periods beginning on or after July 1, 2012 with earlier application permitted and are applied retrospectively.

▪ PAS 19, *Employee Benefits* (Amended 2011)

The amended PAS 19 includes the following requirements:

- actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and
- expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

This amendment is effective for annual periods beginning on or after January 1, 2013 and is applied retrospectively with early adoption permitted. As of statement of financial position date, the Bank has yet to quantify the impact of this amendment to the Bank's financial position and comprehensive income.

To be Adopted on January 1, 2014

- *Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32).* These amendments clarify that:

  - An entity currently has a legally enforceable right to set-off if that right is:
    - not contingent on a future event; and
    - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

  - Gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
    - eliminate or result in insignificant credit and liquidity risk; and
    - process receivables and payables in a single settlement process or cycle.

  These amendments are effective for annual periods beginning on or after January 1, 2014 and are to be applied retrospectively.

To be Adopted on January 1, 2015

- PFRS 9, *Financial Instruments (2010)*, PFRS 9, *Financial Instruments (2009)*

  PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

  PFRS 9 (2010 and 2009) are effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

  After careful assessment, the Bank has decided not to early adopt PFRS 9 for its 2012 annual financial reporting. Therefore, any interim financial statements issued within 2012 as well as the full year 2012 financial statements do not reflect the impact of PFRS 9. Also, the decision not to early adopt PFRS 9 is consistent with the Parent Bank's initiative to adopt PFRS 9 international counterpart on its scheduled mandatory effective date, January 1, 2015.

  The Bank likewise has decided not to conduct a formal, detailed impact evaluation as of December 31, 2012, with the following reasons:

  - As mentioned above, the Bank currently plans to adopt and implement PFRS 9 beginning January 1, 2015. As such, the Bank believes that it would be more cost-efficient, beneficial and relevant to conduct a more detailed impact evaluation at least one (1) year before the Bank mandatorily adopts PFRS 9;
  - The Bank intends to align adoption of PFRS 9 with the Parent Bank's timetable and requirements, including the performance of parallel accounting run and structure of business model requirements;
  - The BSP likewise has adopted PFRS 9 in its prudential regulatory reporting, and has also approved the deferral of its mandatory effective date to January 2015 with the issuance of Circular No. 761 in July 2012. The Bank intends to streamline its review and analysis to also capture the impact of PFRS 9 to its regulatory reporting processes; and

- Recent changes to PFRS 9 (e.g., introduction of fair value through other comprehensive income for debt instruments) as well as the adoption of PFRS 13, *Fair Value Measurement* require further time and effort to better appreciate its implications to the Bank.

Once adopted, PFRS 9 will primarily affect the Bank's trading and investment securities classified as AFS investments and HTM investments. Under PAS 39, AFS investments are remeasured at fair value at every reporting period, with fair value changes lodged in "Net Unrealized Gain on Available-for-Sale Investments" in Equity and HTM investments are carried at amortized cost. Upon adoption of PFRS 9, these accounts will be reclassified according to the Bank's business models in managing its financial statements and contractual cash flow characteristics.

The above disclosures are in accordance with the guidelines contained in Philippine SEC Memorandum Circular No. 3, Series of 2012.

Foreign Currency Translation

Transactions in foreign currencies are initially recorded at the functional rate of exchange at the date of transaction.

Foreign currency-denominated monetary assets and liabilities in the RBU and FCDU are translated into their respective functional currencies based on the Philippine Dealing System (PDS) closing rate prevailing as at the reporting date and PDS closing rate prevailing on the date of the transaction for income and expenses. Foreign exchange differences arising from foreign currency transactions and restatements of foreign currency-denominated assets and liabilities are credited to or charged against profit or loss in the period 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 transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As at the reporting date, the assets and liabilities of the FCDU of the Bank are translated from its functional currency into the presentation currency, the Philippine Peso, at PDS closing rate prevailing at the reporting date, and its income and expenses are translated using the exchange rates as at the dates of the transaction. Exchange differences arising from translation of the FCDU balances to the presentation currency are taken directly to the statement of comprehensive income under "Translation adjustment." Upon remittance of the FCDU's net income to the RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Financial Instruments

Date of Recognition

Purchases or sales of financial assets and liabilities at FVPL and AFS investments, which require delivery of assets within the time frame established by regulation or convention in the marketplace and derivative instruments are recognized on the settlement date (i.e., the date that the asset is delivered to or by the Bank) and trade date (i.e., the date that the Bank commits to purchase or sell the asset), respectively. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Bank or advanced to the borrowers.

Effective January 1, 2013, the Bank changed its accounting policy on regular way purchases and sales of financial assets to trade date basis as allowed under PAS 39, *Financial Instruments: Recognition and Measurement*. In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the affected account balances as of December 31, 2012 and January 1, 2012 will be restated for comparability. The results of restatements to Financial Assets at FVPL, Loans and Receivables, Other Assets and Other Liabilities due to the change in accounting policy are not yet available as of the date of approval of the Bank's 2012 financial statements.

The change in accounting policy did not have any impact to other balances in the statements of financial position, statements of income and statements of comprehensive income for the years ended December 31, 2012 and 2011.

Initial Recognition of Financial Instruments
All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement includes transaction costs. The Bank classifies its financial assets in the following categories: financial assets at FVPL, AFS investments, HTM investments, and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or the liabilities were incurred and whether they are quoted in an active market, and for HTM investments, the ability and intention to hold the investment until maturity. Management determines the category of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Reclassification of Financial Assets
A financial asset at FVPL is reclassified out of the FPVL category when the following conditions are met:

- The financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and

- There is a rare circumstance affecting the assumptions made by the Bank in classifying the financial asset as part of FVPL.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss previously recognized in the statement of income is not reversed. The value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Reclassification is at the election of management, and is determined on an instrument per instrument basis. The Bank does not reclassify any financial instrument into the FVPL category after initial recognition.

Determination of Fair Value
The fair value for financial instruments traded in active markets at the reporting 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 quoted in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

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

Financial Assets and Financial Liabilities at FVPL
This category includes financial assets and liabilities held-for-trading and derivative financial instruments recorded at FVPL.

a. *Financial Assets and Financial Liabilities Held-for-Trading*
Financial assets and 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 gain (loss) - net". Interest earned or incurred is recorded as interest income or 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 securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

b. Derivative Financial Instruments classified as at FVPL
The Bank is a counterparty to derivative contracts, such as foreign exchange contracts and cross currency swaps. These derivatives are entered into as a service to customers, as a means of reducing or managing their respective foreign exchange exposures and 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 cash flow hedges and hedges in net investment in foreign operation) are taken directly to "Trading and securities gain (loss) - net" in the statement of income. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

The method of recognizing fair value gains and losses depends on whether derivatives are held-for-trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. When derivatives are designated as hedges, the Bank classifies them as either: (a) hedges of the change in fair value of recognized assets or liabilities or firm commitments ('fair value hedges'); (b) hedges of the variability in highly probable future cash flows attributable to a recognized asset or liability or a forecast transaction ('cash flow hedges'); or (c) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

In 2012 and 2011, the Bank did not apply hedge accounting treatment for any of its derivative transactions.

AFS Investments
AFS investments are those which are designated as such or do not qualify to be classified as financial assets 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, money market papers and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. Unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are reported as "Net unrealized gain (loss) on available-for-sale investments" in the statement of comprehensive income. For AFS debt securities, impact of translation on foreign currency-denominated securities is reported in the statement of income. For AFS equity securities considered as non-monetary items, impact of translation on foreign currency-denominated securities is included in unrealized gains and losses taken in other comprehensive income.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured shall be measured at cost.

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as "Trading and securities gain (loss) - net" in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out inventory costing basis. Interest earned on holding AFS debt instruments are reported as "Interest income on trading and investment securities" using the effective interest rate (EIR) method. Dividends earned on holding AFS equity investments are recognized in the statement of income as "Miscellaneous income" when the right of payment has been established. Losses arising from impairment of such investments are recognized as "Provisions for credit losses" in the statement of income.

HTM Investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. Where the Bank sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments and the Bank will be precluded from using the HTM investments account for the current period and for the next two succeeding periods from tainting date. After initial measurement, HTM investments are subsequently measured at amortized cost using the EIR method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest income on trading and investment securities" in the statement of income. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under "Provision for credit losses." The effects of translation of foreign currency-denominated HTM investments are recognized in the statement of income.

On October 8, 2012, the Philippine SEC granted to affected holders of identified eligible US Dollar-denominated Republic of the Philippines (“ROP”) bonds who: (a) will tender more than an insignificant amount of such ROP bonds pursuant to Bureau of Treasury (BTr)’s Liability Management Program - Buyback Invitation (“BTr Buyback Invitation”), and (b) currently classify such ROP bonds as HTM investments in accordance with PAS 39 an exemption from the tainting rules of PAS 39. For this purpose, the term “insignificant” shall mean that the amount of ROP bonds held by affected holders classified as HTM Investment is less than 5% of the total HTM Investments of the affected holder.

The above-described exemption from PAS 39 tainting rules is subject to the following conditions:

1. The holders of identified eligible ROP bonds availing the above exemptive relief from PAS 39 tainting rules should: (i) use all, or substantially all, of the proceeds received in the BTr Buyback Invitation to purchase new identified eligible replacement ROP bonds (“the replacement ROP bonds”), and (ii) purchase the replacement ROP bonds within 30 business days from the date of receipt of cash proceeds in the BTr Buyback Invitation;

2. Participating entities should submit within ten (10) days from settlement of purchase of new identified eligible ROP bonds a disclosure to the Philippine SEC the: (i) date(s) of their tender for cash and their purchase of the replacement ROP bonds, (ii) the principal amounts of the ROP bonds tendered and of the newly-purchased replacement ROP bonds, and (iii) the amounts of the participating entity’s total HTM investments portfolio before and after participating in the BTr Buyback Invitation;

3. Participating entities should not recognize Day 1 difference from the BTr Buyback Invitation. Any gains or losses must be amortized over the term of the newly-purchased replacement ROP bonds;

4. The newly-purchased replacement ROP bonds should be classified and recorded as HTM investments;

5. The basis of the preparation of the financial statements should not be PFRSs. It should be the prescribed financial reporting framework for entities that are given relief from certain requirements of the full PFRSs. This basis of financial reporting should be adopted by the participating entity until such time that the ground for its coverage under the PAS 39 tainting rule is no longer present; and

6. Appropriate clearance shall be obtained from the Bangko Sentral ng Pilipinas (BSP), as the primary regulators of the affected banks.

The Department of Finance of the Philippines has obtained clearance from BSP required in item (6) above, and participating banks need not obtain individual clearance from the BSP for the above-described BTr Buyback Invitation.

Failure to comply with the above-stated conditions will render the transactions under the BTr Buyback Invitation as not exempted from the PAS 39 tainting rule and will therefore trigger the consequences attached to the PAS 39 tainting rule.

On November 8, 2012, the BTr launched a Buyback Invitation covering certain ROP bonds held by the Bank as HTM investments. The Bank has tendered and participated with the BTr Buyback Invitation and has complied with the above-stated conditions for the purpose of availing the exemptive relief from PAS 39 tainting rule (see Note 7).

Loans and Receivables
The Bank's loans and receivables include "Due from Bangko Sentral ng Pilipinas (BSP)," "Due from other banks," "Interbank loans receivable" 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 at FVPL or designated as AFS investments.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest income on trading and investment securities" in the statement of income. The losses arising from the impairment of such loans and receivables are recognized in "Provision for credit losses" in the statement of income.

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

Conversely, securities purchased under agreements to resell at a specified future date ("reverse repos") are not recognized on the statement of financial position. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the EIR method.

Other Financial Liabilities
The Bank's other financial liabilities include "Deposit liabilities," "Bills payable," "Outstanding acceptances," "Manager's checks," "Accrued interest, taxes and other expenses," and "Other liabilities" except for liabilities relating to taxes and other non-financial liabilities.

Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liability, where the substance of the contractual arrangement 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, deposit liabilities, bills payable and similar financial liabilities not qualified and not designated as FVPL are subsequently measured at amortized cost using the EIR 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.

Derecognition of Financial Instruments

Financial Asset

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; or
- the Bank has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

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

Offsetting

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, and the related assets and liabilities are presented on a gross basis in the statements of financial position.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

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.

AFS Investments
For AFS investments, 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.

In case of equity investments classified as AFS investments, objective evidence would include a significant or prolonged decline in the fair value of the investments below their cost. The determination of what is significant and prolonged is subject to judgment. When there is evidence of impairment, the cumulative loss, which is 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 statement of income, is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in the statement of comprehensive income.

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. Future 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 on trading and investment securities" in the statement of income. If, in the subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Financial Assets Carried at Amortized Cost
For financial assets carried at amortized cost, 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. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

If a financial asset 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 collaterals, whether or not foreclosure is probable.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Financial assets at amortized cost, 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 a future write-off is later recovered, any amounts formerly charged are credited to the "Provision for credit losses" account in the statement of income. Interest income continues to be recognized based on the original EIR of the financial asset.

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

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

Financial Assets Carried at Cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Restructured Loans
These may involve extending the payment arrangements and agreement on 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 loans' 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 in "Provision for credit losses" in the statement of income.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include "Cash and other cash items," "Due from BSP," and "Due from other banks" and "Interbank loans receivable" that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Property and Equipment

Depreciable properties, including furniture, fixtures and equipment, leasehold rights and improvements, bank premises, computer and transportation equipment are stated at cost less accumulated depreciation and amortization, and accumulated impairment loss, if any. The initial costs 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. Such cost includes the cost of replacing part of the equipment when the cost is incurred and if the recognition criteria are met, but excludes repairs and maintenance cost. 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.

Construction in progress is stated at cost. This includes costs of construction of office facilities and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Depreciation and amortization is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the term of the covering leases and the estimated useful lives of the improvements.

The range of estimated useful lives of the depreciable assets follows:

	Number of Years
Bank premises	30
Transportation equipment	5
Furniture, fixtures and equipment	5
Computer equipment	3
Leasehold rights and improvements	3 - 5 or the terms of the related leases, whichever is shorter

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

An item of property and equipment is derecognized upon disposal or when no 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 carrying amount of the asset) is included in the statement of income in the reporting period the asset is derecognized.

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under "Investment properties" from foreclosure date. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment loss, if any.

Depreciation is calculated on a straight-line basis over the estimated remaining useful life from the time of acquisition of the investment properties. The estimated useful lives of the Bank's investment properties range from 10 to 40 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the period in which the costs are incurred.

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

Computer Software Costs
Computer software costs (included under "Other assets" in the statement of financial position) include costs incurred relative to the development of the Bank's software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Costs are amortized on a straight-line basis over five to eight years and are included under "Amortization of computer software costs" in the statement of income.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Nonfinancial Assets

Property and Equipment, Software Costs and Investment Properties

At each reporting date, the Bank assesses whether there is any indication that its property and equipment, software costs and investment 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 a non-financial asset's fair value less costs to sell and its value in use and is determined for an individual non-financial 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 a non-financial asset exceeds its recoverable amount, the non-financial 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. 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 and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, any depreciation and amortization 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.

Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in "Other liabilities" in the statement of financial position at fair value. Subsequent to initial recognition, the Bank's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in "Service fees and commission income," over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in "Provision for credit losses." Any financial guarantee liability remaining is recognized in the statement of income in "Service fees and commission income," when the guarantee is discharged, cancelled or expires.

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 financial assets at FVPL and 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 in the statement of income.

When the recorded value of a financial asset or a group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service Fees and Commission Income
The Bank earns fee and commission income from the diverse range of services it provides to its customers. 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 corporate finance fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Bank retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants. Service charges and penalties relating to loan receivable and deposit transactions are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Dividends
Dividend income on AFS equity investments is recognized when the Bank's right to receive payment is established.

Trading and Securities Gain (Loss) - net
Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL and realized gains or losses on disposals of financial instruments at FVPL and AFS investments.

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

Expense Recognition
Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in an asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably.

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 where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Retirement Benefits

The Bank's personnel are covered by a funded noncontributory defined benefit retirement plan.

The retirement cost of the Bank is 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 net retirement liability/asset recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of plan assets, together with adjustments for past service cost at the reporting date. 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 the 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% 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 income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

The asset ceiling test requires a defined benefit asset to be measured at the lower of the amount of the net plan assets and the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan.

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. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank nor can they be paid directly to the Bank. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any plan asset recognized is restricted to the sum of any past service costs 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

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments 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.

Contingent Liabilities and Contingent Assets

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

Income Taxes

Income tax comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statement of income, except to the extent that it relates to items recognized directly in equity. Tax on these items is recognized in the statement of comprehensive income.

Current Income Tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date, together with adjustments to tax payable in respect of prior years.

Deferred Taxes

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, carry-forward benefits 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 income will be available against which the deductible temporary differences and carryforward benefits 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 income nor taxable income.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all of 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 income 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 reporting date.

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.

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional Paid-in Capital" account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to "Additional Paid-in Capital" account. If the additional paid-in capital is not sufficient, the excess is charged against the "Retained Earnings."

When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued.

Retained earnings represents accumulated earnings of the Bank less dividends declared.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any. The Bank does not have any dilutive-potential common stock.

Dividends on Capital Stocks

Dividends on capital stocks are recognized as a liability and deducted from retained earnings when declared and approved by the shareholders of the Bank. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the reporting date.

Treasury Stock
Own equity instruments that are reacquired (treasury stocks) are recognized at cost and deducted from equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in share additional paid-in capital. Voting rights related to treasury stocks are nullified for the Bank and no dividends are allocated to them.

Debt Issue Cost
Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the EIR method. Unamortized debt issuance cost is included in the related carrying value of the debt instrument in the statement of financial position.

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

Segment Reporting
The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 24. The Bank's revenue producing assets are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Operating segment results that are reported to the Bank's Chief Executive Officer, being the chief operating decision maker, include items directly attributable to a segment as well as those that can be allocated in a reasonable manner. Unallocated items comprise mainly corporate assets, head office expenses, and tax assets and liabilities that cannot be allocated to business segments on a reasonable basis.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

4. Significant Accounting Judgments and Estimates

The preparation of the financial statements requires the Bank to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

The most significant areas where judgments and estimates have been made are set out below:

Judgments

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 in 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 the going concern basis.

Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position or disclosed in the notes cannot be derived from active markets, they are determined using a variety of valuation techniques acceptable to the market as alternative valuation approaches that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in estimating fair values. The evaluation includes considerations of liquidity and model inputs such as correlation and volatility.

Determination of Whether a Financial Instrument is Quoted in an Active Market

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

HTM Investments

The classification to HTM investments requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling a more than insignificant amount close to maturity or fails to meet the conditions for exemption given by the Philippine SEC, it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost in the year where tainting has occurred and for the next two succeeding reporting periods.

As of December 31, 2012 and 2011, the carrying value of HTM investments amounted to P332.7 million and P264.8 million, respectively (see Note 7).

Operating Leases

The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out as operating leases.

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.

<u>Estimates</u>
Fair Value of Derivatives
The fair value of derivatives that are not quoted in active markets is determined using appropriate valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

As of December 31, 2012 and 2011, derivative assets amounted to P2.8 million and P0.6 million, respectively. As of December 31, 2012 and 2011, derivative liabilities amounted to P3.7 million and P0.03 million, respectively (see Notes 7 and 27).

Impairment of AFS Equity Investments
The Bank treats AFS equity investments as 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 of the original cost of investment, and 'prolonged' as greater than 12 months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

As of December 31, 2012 and 2011, the carrying value of AFS equity investments amounted to P13.0 million and P12.9 million, respectively (see Note 7).

Credit Losses on Loans and Receivables
The Bank reviews its impaired loans and receivables at least semi-annually to assess whether additional provision for credit losses should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal credit rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

As of December 31, 2012 and 2011, allowance for impairment and credit losses on loans and receivables of the Bank amounted to P405.6 million and P384.1 million, respectively (see Note 12). The carrying value of loans and receivables, net of allowance for credit losses, amounted to P13.5 billion and P14.3 billion as of December 31, 2012 and 2011, respectively (see Note 8).

Impairment of Nonfinancial Assets - Property and Equipment, Investment Properties and Software Costs

The Bank assesses impairment on property and equipment, investment properties and software costs whenever events or changes in circumstances indicate that the carrying amount of an asset 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 an asset exceeds its recoverable amount. The recoverable amount used is the value in use.

As of December 31, 2012, the carrying value of property and equipment and investment properties amounted to P201.4 million and P4.4 million, respectively. As of December 31, 2011, the carrying value of property and equipment and investment properties amounted to P246.7 million and P4.3 million, respectively (see Notes 9 and 10). As of December 31, 2012 and 2011, the carrying value of software costs amounted to P127.3 million and P116.0 million, respectively (see Note 11).

As of December 31, 2012 and 2011, there was no impairment loss on nonfinancial assets recognized in the statement of income.

Recognition of Deferred Income Taxes

Deferred tax assets are recognized for all unused tax losses and future tax credits 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 recognized net deferred tax assets as of December 31, 2012 and 2011 amounting to P186.2 million and P282.8 million, respectively. Details of unrecognized temporary differences amounting to P72.4 million and P50.0 million as of December 31, 2012 and 2011, respectively are discussed in Note 21.

Present Value of Retirement Obligation
The cost of defined benefit pension plan and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The expected rate of return on plan assets of 5% in 2012 and 6% in 2011 was based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of financial position dates.

As of December 31, 2012 and 2011, the present value of the retirement obligation of the Bank amounted to P88.1 million and P140.3 million, respectively (see Note 19).

As of December 31, 2012 and 2011, net retirement liability amounted to P8.0 million and P2.9 million, respectively (see Note 19).

Contingencies
The Bank is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsel handling the Bank’s defense in this matter and is based upon an analysis of potential results. Management does not believe that the outcome of this matter will significantly affect the results of operations (see Note 25).

5. Financial Risk and Capital Management Objectives and Policies

The Bank is in the business of creating value out of taking risks.

Financial risks arise primarily from the use of financial instruments which include:

- Credit risk
- Market risk
- Liquidity risk

The following principles summarize the Bank’s overall approach to risk management:

- The BOD provides the overall direction and supervision of the Bank’s risk management;

- The key risks faced by the Bank - both financial and non-financial - are managed by appropriate functional levels within the Bank;

- The risk management functions are independent of the businesses (also referred to as Front office) that take and assume risks; and

- Risk management involves managing the balance between risk and reward, to enable the Bank to fulfill its commitment to protect shareholder interest, as well as deliver value to the banking public, and comply with relevant regulations.

Risk Management Structure
The BOD is ultimately responsible for oversight of the Bank's risk management process which involves identifying, measuring, analyzing, monitoring and controlling risks. It created the Risk Management Committee, a board-level independent committee with explicit authority and responsibility for managing and monitoring risks. It has oversight role over the independent risk functions of Institutional and Retail Credit Risk Management Group (ICRMG/RCRMG) (credit risk), Market Risk Management Department (market risk) and the Risk Team (operational risk). The Risk Team is a multi-disciplinary group composed of the Chief Risk Officer, Chief Financial Officer, Internal Audit Head, Compliance Officer, Enterprise-Wide Risk Manager and Market Risk Manager. The Risk Team conducts a regular Management Committee meeting that is devoted to discussion of operational risk issues identified by the business units through a self-assessment system.

Internal Audit's role is to assist the Bank's management, the Audit Committee and Risk Management Committee by examining, evaluating, reporting and recommending improvements on the adequacy and effectiveness of the organization's risk management and control processes. Internal Audit, acting in a consulting role, assists the Bank in identifying, evaluating and implementing risk management methodologies and controls to address those risks.

In 2010, the Bank further refined their risk management structure by institutionalizing the role of the Chief Risk Officer (CRO). As the Enterprise-Wide Risk Management (EWRM) champion, the CRO facilitates the execution of EWRM processes and infrastructure as a key enabler to achieving the business objectives of the organization.

The CRO manages and develops a comprehensive process for assessing, identifying, monitoring and reducing pertinent business risks that could interfere with the company's objectives and goals. It is usually the CRO's responsibility to ensure that the company is in substantial compliance with its internal operating policies and procedures and any external legal, regulatory or contractual requirements.

The following are the different Risk Groups governed by the CRO:

- Office of the Chief Risk Officer;
- Enterprise-Wide Risk Management Department (EWRMD);
- Institutional Credit Risk Management Group (ICRMG);
- Retail Credit Risk Management Group (RCRMG); and
- Market Risk Management Department (MRMD) - Market Risk, Liquidity Risk and Interest Rate Risk in the Banking Books (IRRBB)

Credit Risk
Credit risk is the risk that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss. Credit risk arises primarily from the Bank's corporate and retail loans (customer credit risk) and investment securities (counterparty credit risk).

With respect to corporate credit risk, ICRMG is mainly responsible for the following:

(a) safeguard the quality of the Bank's institutional loan portfolio; and

(b) provide support services to the lending units of the Bank.

To safeguard the quality of the loan portfolio of the Bank, ICRMG performs the following functions:

(a) conduct pre-approval review of credit proposals of lending units;

(b) assist in structuring appropriate credit facilities;

(c) provide policy guidelines to the lending units in order to standardize the credit process;

(d) coordinate with the lending units on the required post-approval requirements (i.e., Loan Review Report, Account Planning, etc.) in the management of existing accounts;

(e) conduct regular meetings to discuss problem accounts;

(f) review/endorse loan loss provisions for problematic accounts;

(g) handle problem accounts and disposal of foreclosed assets; and

(h) provide senior management with reports pertaining to the quality of the loan portfolio.

Each credit proposal undergoes an evaluation process in order to determine its acceptability. The evaluation process involves the identification of credit risks after having assessed key factors including, target market/industry, management, appropriateness of credit facilities, terms and conditions, financial performance and condition, collateral and others.

The credit risk identification framework also consists of an internal risk rating system that has a blend of both quantitative and qualitative factors. The Obligor's risk rating (ORR) ranges from ORR 1 to 17, with ORR 1 being the highest and 14 to 17 representing the classified accounts (Especially Mentioned to Loss).

One of the Bank's risk monitoring exercises is its semi-annual review of corporate accounts via the Loan Ratings Review (LRR). Exempted from this are accounts fully-secured by cash or government securities, and classified accounts following internal and BSP guidelines on account classification, categorized as especially mentioned (I), Substandard (II), and Doubtful (III), and Loss (IV) following BSP definition. The LRR, accomplished six (6) months after approval date, covers the borrower's relationship with the bank, updated financial performance, repayment capability, identification of major risks, outlook, etc. It also assesses account classification and ORR. If deterioration in credit is identified, either Institutional Banking Group (IBG) or ICRMG have the discretion to include it in any of the Early Warning (EW) buckets, which calls for the submission of a Notification report, quarterly or more frequent LRR (for EW1 accounts), and Account Planning reports (for EW 2 and EW3 accounts). Apart from these, the Relationship Manager (RM) is required to provide updates during the last Credit Committee meeting of each month.

The RM and Litigation Head of Legal Department are also required to report to the Credit Committee the status of the classified accounts at least twice a month and once a month for an EW account. Depending on the outstanding exposure of an EW2/EW3 account, the RM regularly prepares the Account Planning reports for approval either of the Credit Committee or Executive Committee, the frequency of which will be based on the outstanding exposure of the account. The Account Planning report covers the loan details of the account including the outstanding principal, loan loss provision, the action plan and present status of the account which includes the progress diary enumerating the series of events that took place covering the Account Planning period and financial/operation analysis.

Monthly classified accounts are also being prepared by ICRMG for the senior management guidance covering the list of classified accounts and its corresponding loan loss provision.

The Head of the ICRMG reports regularly to the Credit Committee to discuss the Corporate Credit Risk Profile including but not limited to the Past Due Loan, Non Performance Loan, Concentration Risk, Action Plan for each Non Performing account and their corresponding timeline. The Head of ICRMG report also includes the Performance Review which summarizes the actual performance versus projection, month-end and year-end budget covering Non Performing Loan and Loan Loss Provision.

On the Retail Banking side, Retail Credit Risk Management Group (RCRMG) is responsible in managing retail credit risk. Retail credit risk mainly arises from loans contracted for the personal consumption of the individual/borrower such as public loans, salary loans for employees of accredited corporate entities and housing or mortgage loans.

For retail loans, risk is assessed and managed at a portfolio level. For Public Personal Loans, this is accomplished through the use of credit scorecards. For Corporate Personal Loans and Mortgage/Housing Loans, this is performed through the implementation of risk caps (program and deviation) and execution of a risk criteria review process (rule-based criterion or eligibility criteria).

Pursuant to the above, risk identification is performed through the following process workflows:

Process	**Public Personal Loan**	**Corporate Personal Loan**	**Housing/Mortgage Loan**
Pre-screening	Y	Y	Y
Duplicate check	Y	Y	Y
Policy check	Y	Y	Y
Credit scorecard	Y	N	N
Credit verification	Y	Y	Y
Appraisal	N	N	Y
Deviation review	Y	Y	Y
Approval/reject	Y	Y	Y

In the execution of the above processes, segregation of processor, evaluator and approver tasks are observed. Approving authorities are granted based on qualification, competence and capacity. The approving authority hierarchy follows core credit policy set by the Parent Bank such that credit delegation is defined by credit officer and senior credit officer levels, by amounts and by risk level in evaluation and approval of its loan applications by product.

Retail credit risk policies and processes are managed by the Group by upholding the 3-Level Document framework set by the Parent Bank.

1. Policies (Governance, Global Retail Credit Policy) are established by the Parent Bank.

2. Guidance/Principle (Product Guideline) provides an overview of the business strategy and defined management guidelines including product features, eligibility criteria, account management and approval guidelines as approved by the Bank's Board.

3. Procedures and Working Manual details:

   a. The business and credit policies and operating level procedures managed by each department (Product Procedure) approved up to the Bank's President;

   b. Defines the daily operational procedures for each business execution (Working Manual) as approved by the respective Group Head; and

   d. Defines the forms and documents utilized by users to perform business activities as approved by the related Department Head.

Amendments to the fundamental policies may only be instituted from a progression, completion and analysis of performance of a test program or changes to business initiatives or market behavior as evidenced by empirical data, but still subject to respective approval hierarchy.

In addition to the above, RCRMG also handles retail loan portfolio performance reviews and reporting through preparation of monthly asset quality reports, loan portfolio analyses and scorecard performance monitoring reports. Included in these periodic reports are through-the-door analysis, delinquency performance review, industry performance review, risk classification review, scorecard measurement benchmarks review as well as tracking of risk caps.

All of the above functions under the RCRMG enable the creation of new and enhanced credit policies and processes that mitigates possible losses due to retail credit risk.

Counterparty Credit Risk
Credit risk with respect to investment securities, including derivative financial instruments, is generally limited to the carrying values (positive fair values for derivatives) reported in the statement of financial position. Counterparty credit risk could arise as a result of counterparties defaulting on their obligations to pay the principal and coupon (positive fair value at maturity for derivatives).

Maximum Exposure to Credit Risk After Collateral Held or Other Credit Enhancements

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements is shown below:

		2012				2011			
	Note	**Gross Maximum Exposure**	**Fair Value of Collateral**	**Net Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancements**	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancements
Credit risk exposure relating to on balance sheet assets are as follows:									
Loans and receivables									
Due from BSP and other banks		**P4,786,119,823**	**P -**	**P4,786,119,823**	**P -**	P6,589,807,986	P -	P6,589,807,986	P -
Interbank loans receivable		-	-	-	-	2,721,935,658	-	2,721,935,658	-
Loans and discounts	*8*								
Institutional banking		**6,592,443,960**	**751,016,336**	**5,841,427,624**	**751,016,336**	7,154,191,676	364,514,857	6,789,676,819	364,514,857
Retail banking		**3,270,567,917**		**3,270,567,917**		3,075,520,982	-	3,075,520,982	-
Mortgage banking		**1,777,984,019**	**1,665,338,866**	**112,645,153**	**1,665,338,866**	1,965,293,923	1,477,534,141	487,759,782	1,477,534,141
Small business loans		**609,802,714**	**530,048,124**	**79,754,590**	**530,048,124**	637,733,931	501,109,523	136,624,408	501,109,523
Accrued interest receivable		**135,399,889**	**-**	**135,399,889**	-	135,309,349	-	135,309,349	-
Other receivables		**656,346,957**	**-**	**656,346,957**	-	661,839,837	-	661,839,837	-
Unquoted debt securities	*8*	**577,425,205**	**-**	**577,425,205**	-	761,354,230	-	761,354,230	-
Other assets	*11*	**32,433,411**	**-**	**32,433,411**	-	30,567,230	-	30,567,230	-
Subtotal		**18,438,523,895**	**2,946,403,326**	**15,492,120,569**	**2,946,403,326**	23,733,554,802	2,343,158,521	21,390,396,281	2,343,158,521
Financial assets at FVPL	*7*								
Held for trading government debt		**633,186,613**	**-**	**633,186,613**	-	79,558,638	-	79,558,638	-
Derivative assets		**2,795,889**	**-**	**2,795,889**	-	636,506	-	636,506	-
Subtotal		**635,982,502**	**-**	**635,982,502**	-	80,195,144	-	80,195,144	-
Available-for-sale investments	*7*								
Government debt		**1,327,239,383**	**-**	**1,327,239,383**	-	629,750,146	-	629,750,146	-
Unquoted equity securities		**12,984,317**	**-**	**12,984,317**	**-**	12,872,317	-	12,872,317	-
Subtotal		**1,340,223,700**	**-**	**1,340,223,700**	-	642,622,463	-	642,622,463	-
Held-to-maturity investments	*7*								
Government debt		**332,696,411**	**-**	**332,696,411**	-	264,795,279	-	264,795,279	-
		20,747,426,508	**2,946,403,326**	**17,801,023,182**	**2,946,403,326**	24,721,167,688	2,343,158,521	22,378,009,167	2,343,158,521
Credit risk exposures relating to off-balance sheet items are as follows:									
Credit commitments and other credit related-liabilities		**6,009,915,191**	**-**	**6,009,915,191**	-	3,988,360,728	-	3,988,360,728	-
Total		**P26,757,341,699**	**P2,946,403,326**	**P23,810,938,373**	**P2,946,403,326**	P28,709,528,416	P2,343,158,521	P26,366,369,895	P2,343,158,521

Other receivables include loans granted to employees, as well as interest and other receivables. Other assets in the table above exclude non-financial assets such as computer software costs - net, prepaid expenses and other charges and miscellaneous.

Contingent assets consist primarily of standby letters of credit, while commitments pertain to undrawn loan commitments for which the Bank is contractually obliged to extend once the borrowers draw on such commitments.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the credit risk that could arise in the future as a result of changes in values.

Credit-Related Commitments Risks

The Bank extends guarantees, commitment facilities, letters of credit and other off-balance sheet credit-related commitments that may require the Bank to make payments on borrower's behalf. Such transactions expose the Bank to credit risks similar to loans and receivables and are monitored and managed by the Bank using the same credit risk control and management processes and policies. Some consumer asset products under this nature are covered by documentations and drafts that are reviewed and prepared by Bank's lawyers and compliance officers to ensure that it is within acceptable risk and standards. Guarantees carry clauses that are all with reference to applicable laws, regulations, and approved guidelines and policies with some carrying expiry periods or validity to ensure that it is time bound and flexible enough to control losses from changes in external environment to include, among others, changing market conditions such as interest rates or pricing, and monetary policies. See Note 25 for further details of these commitments.

Risk Concentrations of the Maximum Exposure to Credit Risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

Concentrations of risk are managed by counterparty and by industry sector.

An industry sector analysis of both the on- and off-balance sheet exposures, before taking into account collateral held or other credit enhancements, is as follows (in thousands):

	2012						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	**P979,011**	**7.24**	**P7,082,038**	**99.36**	**P1,300,117**	**22.30**	**P9,361,166**
Manufacturing	**3,525,859**	**26.06**	-	-	**2,174,260**	**37.29**	**5,700,119**
Wholesale and retail	**1,265,154**	**9.35**	-	-	**1,409,394**	**24.17**	**2,674,548**
Real estate, renting and business activities	**3,145,562**	**23.25**	-	-	**336,267**	**5.77**	**3,481,829**
Public administration and defense			-	-			
Construction	**171,223**	**1.27**	-	-	**61,220**	**1.05**	**232,443**
Transport, storage and communications	**576,586**	**4.26**	-	-	**282,765**	**4.85**	**859,351**
Electricity, gas and water	**1,708**	**0.01**	-	-	**184,938**	**3.17**	**186,646**
Agriculture, hunting and forestry	**84,044**	**0.62**	-	-	**256**	-	**84,300**
Others**	**4,214,750**	**31.15**	**45,418**	**0.64**	**82,100**	**1.40**	**4,342,268**
Total	**13,963,897**	**103.21**	**7,127,456**	**100.00**	**5,831,317**	**100.00**	**26,922,670**

Forward

	2012						
	Loans and Receivables		**Other Financial Assets**		**Off-Balance Sheet Exposures**		
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Total**
Allowance for credit losses	**(P405,575)**	**(3.00)**	**P -**	**-**	**P -**	**-**	**(P405,575)**
Unearned interest discount and capitalized interest	**(28,685)**	**(0.21)**	**-**	**-**	**-**	**-**	**(28,685)**
	P13,529,637	**100.00**	**P7,127,456**	**100.00**	**P5,831,317**	**100.00**	**P26,488,410**

*Financial intermediaries include investment in Landbank Bonds classified as 'Unquoted debt securities'.
**Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

	2011						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	P1,934,305	13.50	P10,286,484	99.58	P430,357	10.79	P12,651,146
Manufacturing	3,099,566	21.64	-	-	1,466,942	36.78	4,566,508
Wholesale and retail	1,056,746	7.38	-	-	877,484	22.00	1,934,230
Real estate, renting and business activities	1,370,001	9.56	-	-	15,200	0.38	1,385,201
Public administration and defense	1,137,685	7.94	-	-	162,872	4.08	1,300,557
Construction	168,210	1.17	-	-	272,000	6.82	440,210
Transport, storage and communications	240,348	1.68	-	-	123,409	3.09	363,757
Electricity, gas and water	2,488	0.02	-	-	306,880	7.69	309,368
Agriculture, hunting and forestry	57,682	0.40	-	-	-	-	57,682
Others**	5,687,493	39.71	43,440	0.42	333,217	8.37	6,064,150
Total	14,754,524	103.00	10,329,924	100.00	3,988,361	100.00	29,072,809
Allowance for credit losses	(384,141)	(2.68)	-	-	-	-	(384,141)
Unearned interest discount and capitalized interest	(46,352)	(0.32)	-	-	-	-	(46,352)
	P14,324,031	100.00	P10,329,924	100.00	P3,988,361	100.00	P28,642,316

*Financial intermediaries include investment in Landbank Bonds classified as 'Unquoted debt securities'.
**Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

The Bank generally considers concentration risk as excessive when the ratio of a particular segment's exposure (e.g., this may be an industry demographic attribute, or a program) to the total portfolio exceeds predetermined limits.

The Bank considers concentration risk to be present in its loans and receivables when the total exposure to a particular industry or sector exceeds 25% of the total loan portfolio. The BSP considers that credit concentration risk exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio. As of December 31, 2012 and 2011, following both the Bank's policy and BSP regulations, the Bank does not have significant loan concentration to any particular industry.

The Bank manages concentration risk by gearing policies towards regular monitoring and periodic review of the set limits per predetermined segments. Annual updates to the policy include a review of the industry concentration limits and other segmental concentrations within the portfolio. Business intelligence reports sourced from internal and external parties are used as guide in setting up the limits yearly. Industries covered under the industry concentration limits are similarly reviewed to update classifications and coverage.

Credit Quality Per Class of Financial Assets
The credit quality of financial assets is monitored and managed using external and internal ratings. The credit quality of investment securities is generally monitored by reference to the external ratings provided by accredited external credit assessment rating institutions, as follows:

- Moody's
- Standard and Poor's

In cognizance of the requirements of the BSP, the ORR was implemented to all applicable corporate accounts of the IBG of the Bank. The objectives of the system are the following:

(a) to have a standard system of credit rating;

(b) to be able to objectively quantify the credit quality of an account;

(c) to have a "benchmark" for credit/loan review; and

(d) to train and instill discipline in assessing credit risk among account officers and credit officers.

The rating system is an amalgamation of quantitative and qualitative factors. The quantitative factors include, among others, financial indicators on liquidity, leverage, and cash flows. The qualitative factors include among others the quality of management, length of establishment, market standing, reliability of financial statements, etc.

The ORR of each account shall be recorded together with other information such as the date the ORR was conducted, and the account officer who conducted the ORR. These data combined with other historical and future ORR data on the loan portfolio will be used to estimate the loan default rates associated with each rating grade.

It is the Bank's policy to maintain accurate and of consistent risk ratings across the credit portfolio. This facilitates focused management of major potential risk and the comparison of credit exposures across all lines of business, demographic and products.

The table below shows the credit risk rating comprising each category of credit quality and the equivalent external grades for each internal credit risk rating applied for comparison purposes only.

	ORR Internal Credit Risk Ratings (Institutional Banking)	Internal Scoring and Ratings (Retail Banking)	Moody's Equivalent Grades**
High grade	1	Low Risk	Aa3 or better
	2	-do-	A1 to A3
	3	-do-	Baa1
	4	-do-	Baa2
	5	-do-	Baa3
Standard grade	6	Medium Risk	Ba1
	7	-do-	Ba2
	8	-do-	Ba2

Forward

	ORR Internal Credit Risk Ratings (Institutional Banking)	Internal Scoring and Ratings (Retail Banking)	Moody's Equivalent Grades**
	9	-do-	Ba2
	10	-do-	B1
	11	-do-	B2
	12	-do-	B3
	13	-do-	Caa or worse
Substandard grade*	14	High Risk	-do-
	15	-do-	-do-
	16	-do-	-do-
	17	-do-	-do-

* already equivalent to substandard status
** equivalent Standard and Poor's ratings apply

High grade receivables are those which have high probability of collection, as evidenced by counterparties having the ability to satisfy their obligations and that the collaterals used to secure the loans/receivables are readily enforceable. Standard grade receivables are receivables where collections are probable due to the reputation and the financial ability to pay of the counterparty but which have been outstanding for a considerable length of time. Substandard grade receivables are those where the counterparties are not capable of honoring their financial obligations.

For Retail Banking, credit quality is monitored using internal ratings. For Public Personal Loans, risk differentiation or risk rating is established by scorecard models. Scorecard variables are assigned scores based on their discriminative power to differentiate good-bad factors. Higher scores assigned to a loan applicant denote better risk and therefore lower propensity to default. For Corporate Personal Loans, the employer's repayment management and performance within its defined default ratio caps is salient to measuring risk.

For Mortgage portfolio, risk differentiation is tied to income classification. Performance review of the mortgage portfolio identifies income as a good risk indicator, such that, higher income segments denotes better risk; manifested in the risk-ranking of customers by income bands.

The credit quality of trading and financial investment securities is generally monitored through the external ratings of eligible external credit assessment rating institutions. The table above presents the mapping of external ratings to the Bank's credit quality classification.

The tables below show the credit quality by class of the Bank's financial assets, including loans and receivables (gross of allowance for credit losses and unearned interest discount, in thousands).

2012

	Neither Past Due nor Specifically Impaired				**Past Due but not Specifically Impaired**	**Specifically Impaired**	**Total**
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**			
Loans and receivables							
Due from BSP	**P4,329,274**	**P -**	**P -**	**P -**	**P -**	**P -**	**P4,329,274**
Due from other banks	**456,846**	**-**	**-**	**-**	**-**	**-**	**456,846**
Interbank loans receivable	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and discounts							
Institutional banking	**577,254**	**6,021,260**	**-**	**-**	**-**	**4,517**	**6,603,031**
Retail banking	**2,094,171**	**1,032,997**	**36,829**	**-**	**93,678**	**276,138**	**3,533,813**
Mortgage banking	**1,251,043**	**368,423**	**23,584**	**8,014**	**93,074**	**51,167**	**1,795,305**
Small business loans	**-**	**500,142**	**-**	**81,444**	**29,934**	**-**	**611,520**
Accrued interest receivable	**42,067**	**17,881**	**171**	**75,253**	**-**	**8,344**	**143,716**
Others receivables	**-**	**-**	**-**	**683,026**	**-**	**-**	**683,026**
Unquoted debt securities	**515,422**	**-**	**-**	**78,064**	**-**	**-**	**593,486**
Other assets	**-**	**-**	**-**	**32,433**	**-**	**-**	**32,433**
Subtotal	**9,266,077**	**7,940,703**	**60,584**	**958,234**	**216,686**	**340,166**	**18,782,450**
Financial assets at FVPL							
Held-for-trading government debt	**633,187**	**-**	**-**	**-**	**-**	**-**	**633,187**
Derivative assets		**2,796**	**-**	**-**	**-**	**-**	**2,796**
Subtotal	**633,187**	**2,796**	**-**	**-**	**-**	**-**	**635,983**
AFS investments							
Government debt	**-**	**1,327,239**	**-**	**-**	**-**	**-**	**1,327,239**
Unquoted equity securities	**12,984**	**-**	**-**	**-**	**-**	**-**	**12,984**
Subtotal	**12,984**	**1,327,239**	**-**	**-**	**-**	**-**	**1,340,223**
HTM investments							
Government debt	**332,696**	**-**	**-**	**-**	**-**	**-**	**332,696**
Total	**P10,244,944**	**P9,270,738**	**P60,584**	**P958,234**	**P216,686**	**P340,166**	**P21,091,352**

2011

	Neither Past Due nor Specifically Impaired				Past Due but not Specifically Impaired	Specifically Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and receivables							
Due from BSP	P1,913,242	P -	P -	P -	P -	P -	P1,913,242
Due from other banks	4,676,566	-	-	-	-	-	4,676,566
Interbank loans receivable	2,721,936	-	-	-	-	-	2,721,936
Loans and discounts							
Institutional banking	332,373	6,818,350	-	-	-	38,101	7,188,824
Retail banking	1,634,512	1,223,187	123,640	-	83,560	255,281	3,320,180
Mortgage banking	1,380,494	413,065	35,632	17,189	89,235	57,116	1,992,731
Small business loans	-	534,626	-	103,595	-	1,226	639,447
Accrued interest receivable	158	16,023	-	120,567	-	5,606	142,354
Others receivables	-	-	-	683,340	-	-	683,340
Unquoted debt securities	714,808	-	-	72,840	-	-	787,648
Other assets	-	-	-	30,567	-	-	30,567
Subtotal	13,374,089	9,005,251	159,272	1,028,098	172,795	357,330	24,096,835
Financial assets at FVPL							
Held-for-trading government debt	79,559	-	-	-	-	-	79,559
Derivative assets	-	637	-	-	-	-	637
Subtotal	79,559	637	-	-	-	-	80,196
AFS investments							
Government debt	-	629,750	-	-	-	-	629,750
Unquoted equity securities	12,872	-	-	-	-	-	12,872
Subtotal	12,872	629,750	-	-	-	-	642,622
HTM investments							
Government debt	264,795	-	-	-	-	-	264,795
Total	P13,731,315	P9,635,638	P159,272	P1,028,098	P172,795	P357,330	P25,084,448

The table below shows the aging analysis of past due but not specifically impaired loans and receivables by class (in thousands).

	2012			2011		
	Less than 30 Days	**31 to 90 Days**	**Total**	Less than 30 Days	31 to 90 Days	Total
Loans and Discounts						
Retail banking	**P3,702**	**P89,976**	**P93,678**	P146	P83,414	P83,560
Mortgage banking	**-**	**93,074**	**93,074**	-	89,235	89,235
Small business loans	**29,934**	**-**	**29,934**	-	-	-
Total	**P33,636**	**P183,050**	**P216,686**	P146	P172,649	P172,795

The above aging analysis already excludes accounts that have been assessed to be specifically impaired. Further, the definition of past due follows that of PFRS 7, which states that a financial asset is past due when the counterparty has failed to make a principal or interest payments when due.

See Note 12 for the detailed information with respect to the Bank's allowance for impairment and credit losses on loans and receivables.

Included in specifically impaired financial assets are the Bank's restructured loan receivables. The table below shows the carrying amounts of restructured loan receivables by class (in thousands):

	2012	2011
Institutional banking		
Performing	**P3,517**	P -
Non-performing	**-**	5,475
Personal loans		
Performing	**172**	1,226
Non-performing	**4,126**	-
Mortgage banking		
Performing	**824**	2,520
	P8,639	P9,221

Restructured performing and non-performing loans (NPLs) of the Bank, net of specific impairment allowances as determined by PAS 39, as of December 31, 2012 and 2011, amounted to P2.9 million and P3.6 million, respectively.

<u>Non-performing Loans</u>
The Bank monitors its NPLs ratio as part of its credit risk monitoring and reporting to the BSP. Shown below are the Bank's NPL:

	2012	2011
Secured	**P33,774,131**	P14,561,468
Unsecured	**294,626,293**	336,282,672
	P328,400,424	P350,844,140

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 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 ten percent (10%) 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.

Collateral and Credit Risk Mitigation Techniques
The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. The Bank follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained for loans and receivables are as follows:

- For Institutional Lending - cash, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred.

- For Retail Lending - mortgages on residential properties and vehicles financed.

Management regularly monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of collateral is considered during the review of the adequacy of the allowance for impairment and credit losses. For unsecured lending, the Bank performs comprehensive credit evaluation process before each loan is approved.

The following table shows information relating to loan receivables (at gross amounts) broken down into secured and unsecured, with types of collateral being shown for the secured portion:

	2012		2011	
	Amount	**%**	Amount	%
Secured by:				
Real estate	**P2,609,198,946**	**18.69**	P2,532,433,451	17.16
Government guarantee	**549,825,530**	**3.94**	1,889,835,374	12.81
Hold-out on deposits	**501,594,321**	**3.59**	546,139,390	3.70
Special deposit account	**53,596,105**	**0.38**	27,418,270	0.19
Mortgage trust indenture	**25,069,125**	**0.18**	25,018,264	0.17
Chattel	**72,228,939**	**0.52**	15,234,544	0.10
Government Bonds	**76,600,180**	**0.54**	-	-
	3,888,113,146	**27.84**	5,036,079,293	34.13
Unsecured	**10,075,783,965**	**72.16**	9,718,444,585	65.87
	P13,963,897,111	**100.00**	P14,754,523,878	100.00

As of December 31, 2012 and 2011, for past due and impaired loans and discounts, the fair values of real estate collaterals held amounted to P50.7 million and P78.6 million, respectively. There were no other types of collaterals held during 2012 and 2011, respectively.

Fair values were determined by the Bank's internal appraisers, or by accredited external appraisers. Normally, there are three approaches available to the Bank in arriving at the fair value of collateral (i.e., real estate, and chattel). These are the Cost approach, Market Data approach and the Income approach.

The Cost approach takes into consideration the current cost of reproducing a property less depreciation from all sources (i.e., deterioration, functional and economic obsolescence). On the other hand, the Market Data approach takes into consideration the value indicated by recent sales of comparable properties in the market. Lastly, the Income approach takes into consideration the value which the property's net earning power will support based upon a capitalization of net income.

In most cases, the Bank utilizes all three approaches. However, it believes that the value indication from one approach will be more significant than from the other two, yet it will use all three as a check against each other, and to test its own judgment.

The fair value of collaterals subjected to repurchase and reverse repurchase agreements with BSP as of the year ended December 31, 2012 and 2011 amounted to nil and P2.6 billion, respectively.

Liquidity Risk and Funding Management

Liquidity risk is the risk of loss to earnings or capital due to the inability to meet funding requirements within a reasonable period of time at a reasonable price.

The Bank applies a liquidity risk management strategy of maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions.

MRMD is responsible in managing liquidity risk. MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and studying asset and liability management related issues.

The table below shows the maturity profile of the Bank's financial liabilities, based on undiscounted contractual cash flows (in millions):

	2012					
	On Demand	**1 to 3 Months**	**3 to 6 Months**	**6 to12 Months**	**Greater than One Year**	**Total**
Deposit liabilities						
Demand	**P4,307**	**P -**	**P -**	**P -**	**P -**	**P4,307**
Savings	**2,200**	**-**	**-**	**-**	**-**	**2,200**
Time	**2,861**	**1,993**	**449**	**117**	**73**	**5,493**
Bills and acceptances payable	**-**	**1,941**	**-**	**-**	**-**	**1,941**
Manager's checks	**37**	**-**	**-**	**-**	**-**	**37**
Accrued interest and other expenses	**219**	**-**	**-**	**-**	**-**	**219**
Other liabilities	**646**	**-**	**-**	**-**	**-**	**646**
	10,270	**3,934**	**449**	**117**	**73**	**14,843**
Future interest payments	**9**	**14**	**1**	**17**	**21**	**62**
	10,279	**3,948**	**450**	**134**	**94**	**14,905**
Financial liabilities at FVPL						
Forward contract payable	**1,407**	**-**	**-**	**-**	**-**	**1,407**
Forward contract receivable	**(1,407)**	**-**	**-**	**-**	**-**	**(1,407)**
	-	**-**	**-**	**-**	**-**	**-**
	P10,279	**P3,948**	**P450**	**P134**	**P94**	**P14,905**

	2011					
	On Demand	1 to 3 Months	3 to 6 Months	6 to12 Months	Greater than One Year	Total
Deposit liabilities						
Demand	P4,686	P -	P -	P -	P -	P4,686
Savings	2,339	-	-	-	-	2,339
Time	-	9,744	220	187	104	10,255
Bills and acceptances payable	-	1,097	-	-	-	1,097
Manager's checks	25	-	-	-	-	25
Accrued interest and other expenses	233	-	-	-	-	233
Other liabilities	713	-	-	-	-	713
	7,996	10,841	220	187	104	19,348
Future interest payments	33	8	21	18	29	109
	8,029	10,849	241	205	133	19,457
Financial liabilities at FVPL						
Forward contract payable	79	-	-	-	-	79
Forward contract receivable	(79)	-	-	-	-	(79)
	-	-	-	-	-	-
	P8,029	P10,849	P241	P205	P133	P19,457

The above maturity table shows the undiscounted cash flows whose expected maturities are not the same as the asset-liability gap. The Bank does not expect all depositors to require repayment on the earliest date the Bank could be required to pay. Further, the maturity table does not reflect expected cash flows based on deposit behavior and historical retention rate.

Accrued interest and other expenses exclude taxes, payroll-related balances and other non-financial items. Other liabilities exclude non-financial liabilities such as withholding taxes payable, bills purchased and miscellaneous.

As required by the BSP, the Bank sets aside funds in Cash and Due from BSP as liquidity reserves. These funds are withdrawable on demand and are used as financial assets held for managing liquidity risk (Note 13). The table further below on funding gap analysis provides a more comprehensive disclosure on how these financial assets are used to manage the Bank's liquidity risk.

The tables below show the contractual expiry by maturity of the Bank's off-balance sheet commitments (in thousands).

	2012					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Commitments	**P701,857**	**P1,415,958**	**P1,267,401**	**P2,446,102**	**P -**	**P5,831,318**
Contingent liabilities	**117,613**	**54,743**	**-**	**-**	**-**	**172,356**
Others	**6,241**	**-**	**-**	**-**	**-**	**6,241**
Total	**P825,711**	**P1,470,701**	**P1,267,401**	**P2,446,102**	**P -**	**P6,009,915**

	2011					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Commitments	P533,353	P575,165	P1,081,430	P1,492,402	P -	P3,682,350
Contingent liabilities	10,870	289,775	2,829	-	-	303,474
Others	2,537	-	-	-	-	2,537
Total	P546,760	P864,940	P1,084,259	P1,492,402	P -	P3,988,361

To ensure that adequate liquidity is maintained at all times, the Bank's Liquidity and Balance Sheet Management Unit diversifies funding sources and evaluates cash flows and future funding needs on a daily basis. This involves projecting the Bank's liquidity position under current market conditions and stress scenarios. In addition to its core deposit base, the Bank maintains a portfolio of marketable assets that can be readily liquidated in the event of an unforeseen interruption of cash flows. Additional funding may be secured from the interbank market by tapping the Bank's credit facilities. Further, the Bank maintains with the BSP statutory reserves on its non-FCDU deposits.

Liquidity risk control entails primarily the setting of risk limits, which define management's tolerance for liquidity risk. Specifically, limits are set on the maximum cumulative outflow (MCO) and level of interbank borrowings. Liquidity risk is also monitored through the use of liquidity ratios. One of the more important liquidity ratios is the ratio of net liquid assets to total deposits. Net liquid assets consist of the sum of cash, due from banks, interbank loans, securities held for trade, available for sale, and held to maturity and unquoted debt securities with remaining maturities of less than one month, less interbank borrowings. The ratios for the year 2012 and 2011 were as follows:

	2012	2011
December 31	**43%**	54%
Average during the period	**42%**	40%
Highest	**46%**	54%
Lowest	**33%**	27%

Further, the Bank performs a funding gap analysis using estimated cash flows (in thousands). Shown below is the Bank's asset-liability gap:

	2012								
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	2 Years	3 Years	4 Years	Greater than 5 Years	Total
Assets									
Loans and receivables									
Cash and other cash items	P346,343	P -	P -	P -	P -	P -	P -	P -	P346,343
Due from BSP	4,329,274	-	-	-	-	-	-	-	4,329,274
Due from other banks	456,846	-	-	-	-	-	-	-	456,846
Interbank loans receivable	-	-	-	-	-	-	-	-	-
Loans and discounts - gross	2,238,338	2,164,582	1,537,077	853,201	1,627,894	3,103,509	241,835	2,197,461	13,963,897
Other assets	2,161	-	1,672	1,117	5,442	1,811	5,672	14,558	32,433
Subtotal	7,372,962	2,164,582	1,538,749	854,318	1,633,336	3,105,320	247,507	2,212,019	19,128,793
Financial assets at FVPL	2,796	-	228	76,791	-	-	-	556,168	635,983
AFS investments	-	-	-	-	-	-	-	1,340,224	1,340,224
HTM investments	1,006	-	-	-	90,624	42,347	-	198,719	332,696
Total financial assets	7,376,764	2,164,582	1,538,977	931,109	1,723,960	3,147,667	247,507	4,307,130	21,437,696
Liabilities									
Financial liabilities at FVPL derivative liabilities	3,714	-	-	-	-	-	-	-	3,714
Other financial liabilities at amortized cost									
Deposit liabilities	9,367,479	1,993,291	448,893	117,326	72,939	-	-	135	12,000,063
Bills payable	1,929,350	-	-	-	-	-	-	-	1,929,350
Outstanding acceptances	12,132	-	-	-	-	-	-	-	12,132
Manager's checks	36,869	-	-	-	-	-	-	-	36,869
Accrued interest and other expenses	218,712	-	-	-	-	-	-	-	218,712
Other liabilities	646,243	-	-	-	-	-	-	-	646,243
Total financial liabilities	12,214,499	1,993,291	448,893	117,326	72,939	-	-	135	14,847,083
Asset-liability gap	(P4,837,735)	P171,291	P1,090,084	P813,783	P1,651,021	P3,147,667	P247,507	P4,306,995	P6,590,613

	2011								
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	2 Years	3 Years	4 Years	Greater than 5 Years	Total
Assets									
Loans and receivables									
Cash and other cash items	P328,043	P -	P -	P -	P -	P -	P -	P -	P328,043
Due from BSP	1,238,242	675,000	-	-	-	-	-	-	1,913,242
Due from other banks	4,676,566	-	-	-	-	-	-	-	4,676,566
Interbank loans receivable	2,717,680	4,256	-	-	-	-	-	-	2,721,936
Loans and discounts - gross	3,065,623	2,601,929	746,918	802,376	1,631,564	1,937,573	1,498,212	2,470,329	14,754,524
Other assets	3,474	-	902	516	1,547	3,741	1,120	19,267	30,567
Subtotal	12,029,628	3,281,185	747,820	802,892	1,633,111	1,941,314	1,499,332	2,489,596	24,424,878
Financial assets at FVPL	637	27,244	-	7	-	-	-	52,307	80,195
AFS investments	-	-	-	-	-	-	-	642,622	642,622
HTM investments	29,968	56,081	-	-	1,038	53,038	-	124,670	264,795
Total financial assets	12,060,233	3,364,510	747,820	802,899	1,634,149	1,994,352	1,499,332	3,309,195	25,412,490
Liabilities									
Financial liabilities at FVPL derivative liabilities	26	-	-	-	-	-	-	-	26
Other financial liabilities at amortized cost									
Deposit liabilities	14,689,846	2,079,699	219,841	187,028	31,450	72,775	-	-	17,280,639
Bills payable	1,096,000	-	-	-	-	-	-	-	1,096,000
Outstanding acceptances	1,381	-	-	-	-	-	-	-	1,381
Manager's checks	24,679	-	-	-	-	-	-	-	24,679
Accrued interest and other expenses	232,901	-	-	-	-	-	-	-	232,901
Other liabilities	953,213	-	-	-	-	-	-	-	953,213
Total financial liabilities	16,998,046	2,079,699	219,841	187,028	31,450	72,775	-	-	19,588,839
Asset-liability gap	(P4,937,813)	P1,284,811	P527,979	P615,871	P1,602,699	P1,921,577	P1,499,332	P3,309,195	P5,823,651

Market Risk

Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rates (including credit spread), foreign exchange, equities and commodities. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities, and derivatives.

MRMD is responsible in managing market risk. MRMD performs the second line of defense. It is responsible for designing and executing appropriate identification, measurement, monitoring, control and reporting of market risk; and developing the market risk management policy and relevant procedures; and monitoring and reporting overall market risk profile and limit utilization.

The Bank classifies exposures to market risk into either trading or non-trading portfolios.

It is exposed to the potential loss in its trading portfolio because the values of its trading positions are sensitive to changes in the market prices and rates. Similarly, it is also exposed to market risk in its non-trading portfolio.

The Bank sets its market risk limits by considering market predictions, capital and annual budgets. It takes into account the correlation among different market risk factors to estimate potential loss using Value-at-Risk (VaR) approach and also determines if this potential loss is appropriate in light of the size of its annual budget. The Bank also determines its market risk limits by considering the experience of its risk-taking units and its risk appetite.

The Bank utilizes market risk factor sensitivities as a tool to manage market risk. Market risk factor sensitivities of a position are defined as a change in the value of a position caused by a unit shift in a given market factor. Market risk factor sensitivities include interest rate and foreign exchange factor sensitivities. The calculation of the factor sensitivities is obtained by measuring the effect of a one (1) unit increase in current interest rates or current foreign exchange rates upon various product types.

The Bank uses the VaR methodology in managing probable losses arising from potential changes in the market price of underlying assets. In deriving the VaR, the Bank employs the historical simulation approach, which estimates potential losses by assuming that future price movements will mimic historical trends.

The VaR methodology is a statistical estimate based on a historical simulation approach and generated from a historical database. It is important to note that VaR is only an estimate of maximum potential loss given a level of confidence. It can be based on historical data, which may not necessarily replicate itself in the future, or be computed from randomly generated numbers. As such, VaR cannot predict losses with 100% confidence.

The VaR will be based on a 1-day holding period, a level of confidence of 99% and a time series equivalent to 500 days (or 2 years). The level of confidence can be adjusted in response to heightened volatility in the market. The following are the VaR statistics (in millions):

	2012		
	Foreign Exchange	**Fixed Income**	**Total VaR**
December 31	**P0.7**	**P9.6**	**P10.3**
Average Daily	**4.6**	**26.8**	**26.4**
Highest	**14.4**	**83.4**	**81.5**
Lowest	**0.1**	**1.1**	**1.6**

	2011		
	Foreign Exchange	Fixed Income	Total VaR
December 31	P0.7	P1.2	P3.2
Average Daily	2.5	16.4	15.4
Highest	15.8	46.3	43.4
Lowest	0.1	1.1	1.8

The Fixed Income column comprises both Peso and Dollar bonds.

The highs and lows of the total portfolio may not equal the sum of the individual components as the highs and lows of the individual portfolios may have occurred on different trading days. The VaR for foreign exchange is the foreign exchange risk throughout the Bank. The Bank, when aggregating the foreign exchange VaR and interest VaR, considers the correlation effects between the two risks. Annually, the BOD sets the VaR limit for the trading books to which compliance is reviewed daily by Risk Management.

The model's validity is assessed daily via back-testing. This involves determining whether the VaR figure actually represents the "maximum" potential loss for a given confidence level (e.g., 99%). If the VaR is a valid estimate of maximum potential loss, then the actual loss from holding on to the currency position for one day should be less than the VaR 99% of the time. Another way of stating this is that the actual loss would be greater than VaR for at most one day for every 100 days.

Market risk positions are also subject to daily stress tests to ensure that the Bank could withstand an extreme event. Historical events considered for stress testing represent crises - political or economic - which impacted greatly and adversely the financial markets.

Foreign Exchange Risk

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2012 and 2011. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by currency (in thousands):

	2012			2011		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
Loans and receivables						
Cash and other cash items	**P38,298**	**P -**	**P38,298**	P35,396	P -	P35,396
Due from BSP and other banks	**388,030**	**21,399**	**409,429**	4,597,132	43,171	4,640,303
Interbank loan receivable	**-**	**-**	**-**	87,680	4,256	91,936
Financial assets at FVPL	**556,159**	**-**	**556,159**	52,444	-	52,444
AFS investments	**1,113,825**	**-**	**1,113,825**	629,750	-	629,750
HTM investments	**198,719**	**-**	**198,719**	156,499	-	156,499
Loans and discounts - net	**3,409,716**	**-**	**3,409,716**	2,299,287	-	2,299,287
Other assets	**2,796**	**-**	**2,796**	637	9,731	10,368
Total assets	**5,707,543**	**21,399**	**5,728,942**	7,858,825	57,158	7,915,983
Liabilities						
Other financial liabilities at amortized cost						
Deposit liabilities	**4,908,556**	**570**	**4,909,126**	6,529,646	8,376	6,538,022
Bills payable	**1,929,350**	**-**	**1,929,350**	1,096,000	-	1,096,000
Outstanding acceptances	**7,318**	**2,113**	**9,431**	1,381	-	1,381
Accrued interest and other expenses	**5,720**	**-**	**5,720**	5,627	-	5,627
Derivative liabilities	**3,600**	**113**	**3,713**	26	-	26
Other liabilities	**17,343**	**-**	**17,343**	12,212	28	12,240
Total liabilities	**6,871,887**	**2,796**	**6,874,683**	7,644,892	8,404	7,653,296
Net exposure	**(P1,164,344)**	**P18,603**	**(P1,145,741)**	P213,933	P48,754	P262,687

Information relating to the Bank's currency derivatives is contained in Note 27. The Bank has outstanding foreign currency spot transactions (in equivalent peso amounts) of P1.1 billion (sold) and P1.1 billion (bought) as of December 31, 2012, and P2.2 billion (sold) and P2.2 billion (bought) as of December 31, 2011.

Foreign exchange factor sensitivities ("FX Delta") represent the change in the net present value of the foreign exchange portfolios caused by a unit shift of 100% of the underlying currency's exchange rate. The FX Delta risk comes from the FX exposure of derivatives, the hedging of foreign exchange positions and foreign currency cash positions.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU. 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 the foreign currency liabilities with the foreign currency assets held through FCDUs. The BSP also requires a 30% liquidity reserve on all foreign currency liabilities held through FCDUs.

Outside the FCDU, the Bank has additional foreign currency assets and liabilities in the RBU representing trade assets and corresponding foreign currency borrowings.

Interest Rate Risk

Interest rate risk is the risk to future earnings or equity arising from the movement of interest rates. Changes in interest rates affect: (1) the Bank's earnings by changing its net interest income (NII) and the level of other interest rate-sensitive income; and (2) the underlying economic value of the Bank's assets, liabilities and off-balance sheet instruments by means of reducing the present value of future cash flows (and in some cases, the cash flows themselves).

As the primary interest rate risk management unit, the Liquidity and Balance Sheet Management Unit adjusts the repricing structure of assets and liabilities to ensure that interest rate risk exposure stays within a controllable range. Limits on the change in one-year earnings (delta NII) and economic value of equity (EVE) given a one basis point change in interest rates are also established.

The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Accordingly, limits on interest rate gaps for stipulated periods have been established by management.

The tables below show the sensitivity of the Bank's one-year earnings and economic value of equity to possible changes in interest rates. The effect of the assumed interest rate changes on one-year earnings per currency is measured based on rate sensitive non-trading assets and liabilities as of December 31, 2012 and 2011. The sensitivity of equity to interest rate movements is the present value of future cash flows discounted at the market rate.

			2012								
		Sensitivity of	**Sensitivity of Equity**								
Currency	**Increase in bps**	**Net Interest Income**	**1 Month**	**3 Months**	**6 Months**	**1 Year**	**2 Years**	**5 Years**	**7 Years**	**10 Years Up**	**Total**
					(In Thousand Pesos)						
PHP	**15**	**P3,615**	**(P397)**	**(P445)**	**P3,092**	**(P2,269)**	**(P4,882)**	**(P172)**	**P -**	**(P3,104)**	**(P8,177)**
(in 000s)	**20**	**4,820**	**(529)**	**(593)**	**4,121**	**(3,024)**	**(6,504)**	**(230)**	**-**	**(4,108)**	**(10,867)**
	25	**6,025**	**(661)**	**(741)**	**5,149**	**(3,778)**	**(8,124)**	**(287)**	**-**	**(5,099)**	**(13,541)**
USD	**15**	**(1,761)**	**167**	**(157)**	**1,024**	**8**	**258**	**887**	**-**	**(13,177)**	**(10,990)**
(in 000s)	**20**	**(2,348)**	**223**	**(209)**	**1,365**	**11**	**344**	**1,181**	**-**	**(17,498)**	**(14,583)**
	25	**(2,935)**	**278**	**(261)**	**1,705**	**13**	**430**	**1,475**	**-**	**(21,783)**	**(18,143)**

			2012								
		Sensitivity of	**Sensitivity of Equity**								
Currency	**Decrease in bps**	**Net Interest Income**	**1 Month**	**3 Months**	**6 Months**	**1 Year**	**2 Years**	**5 Years**	**7 Years**	**10 Years Up**	**Total**
					(In Thousand Pesos)						
PHP	**-15**	**(P3,615)**	**P398**	**P445**	**(P3,099)**	**P2,275**	**P4,903**	**P173**	**P -**	**P3,244**	**P8,339**
(in 000s)	**-20**	**(4,820)**	**530**	**594**	**(4,133)**	**3,035**	**6,542**	**231**	**-**	**4,357**	**11,156**
	-25	**(6,025)**	**663**	**743**	**(5,169)**	**3,796**	**8,184**	**289**	**-**	**5,487**	**13,993**
USD	**-15**	**1,761**	**(167)**	**157**	**(1,026)**	**(8)**	**(260)**	**(892)**	**-**	**13,505**	**11,309**
(in 000s)	**-20**	**2,348**	**(223)**	**209**	**(1,369)**	**(11)**	**(346)**	**(1,191)**	**-**	**18,081**	**15,150**
	-25	**2,935**	**(279)**	**262**	**(1,712)**	**(13)**	**(433)**	**(1,491)**	**-**	**22,695**	**19,029**

		2011									
		Sensitivity of	Sensitivity of Equity								
Currency	Increase in bps	Net Interest Income	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
						(In Thousand Pesos)					
PHP	15	P4,272	(P277)	(P749)	P2,769	(P2,147)	(P4,382)	P810	P -	(P1,169)	(P5,145)
(in 000s)	20	5,697	(369)	(999)	3,691	(2,862)	(5,839)	1,079	-	(1,547)	(6,846)
	25	7,121	(461)	(1,248)	4,612	(3,576)	(7,293)	1,348	-	(1,920)	(8,538)
USD	15	592	(136)	(66)	1,256	75	(266)	1,090	-	(7,434)	(5,481)
(in 000s)	20	790	(182)	(87)	1,674	100	(354)	1,452	-	(9,873)	(7,270)
	25	987	(227)	(109)	2,092	125	(442)	1,813	-	(12,295)	(9,043)

		2011									
		Sensitivity of	Sensitivity of Equity								
Currency	Decrease in bps	Net Interest Income	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
						(In Thousand Pesos)					
PHP	-15	(P4,272)	P277	P751	(P2,776)	P2,153	P4,401	(P815)	P -	P1,221	P5,212
(in 000s)	-20	(5,697)	370	1,001	(3,702)	2,872	5,873	(1,088)	-	1,640	6,966
	-25	(7,121)	462	1,252	(4,629)	3,592	7,347	(1,361)	-	2,065	8,728
USD	-15	(592)	137	66	(1,259)	(76)	267	(1,098)	-	7,608	5,645
(in 000s)	-20	(790)	182	88	(1,679)	(101)	356	(1,465)	-	10,184	7,565
	-25	(987)	228	110	(2,099)	(126)	445	(1,833)	-	12,780	9,505

The following table sets forth the repricing gap position of the Bank (in thousands):

	2012					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Financial Assets						
Loans and receivables						
Cash and other cash items	**P346,343**	**P -**	**P -**	**P -**	**P -**	**P346,343**
Due from BSP	**4,329,274**	**-**	**-**	**-**	**-**	**4,329,274**
Due from other banks	**456,846**	**-**	**-**	**-**	**-**	**456,846**
Interbank loans receivable	**-**	**-**	**-**	**-**	**-**	**-**
Loans and discounts - gross	**8,173,118**	**3,255,710**	**763,998**	**1,026,718**	**744,353**	**13,963,897**
Other assets	**2,161**	**-**	**1,672**	**1,117**	**27,483**	**32,433**
Financial assets at FVPL						
Government debt	**-**	**-**	**228**	**76,791**	**556,168**	**633,187**
Derivatives	**2,796**	**-**	**-**	**-**	**-**	**2,796**
AFS investments	**-**	**-**	**-**	**-**	**1,340,224**	**1,340,224**
HTM investments	**1,006**	**-**	**-**	**-**	**331,690**	**332,696**
Total financial assets	**13,311,544**	**3,255,710**	**765,898**	**1,104,626**	**2,999,918**	**21,437,696**
Financial Liabilities						
Financial liabilities at FVPL derivative liabilities	**3,714**	**-**	**-**	**-**	**-**	**3,714**
Other financial liabilities at amortized cost						
Deposit liabilities						
Demand	**4,306,942**	**-**	**-**	**-**	**-**	**4,306,942**
Savings	**2,199,745**	**-**	**-**	**-**	**-**	**2,199,745**
Time	**2,774,842**	**1,993,291**	**433,743**	**117,326**	**174,174**	**5,493,376**
Bills payable and outstanding acceptances	**1,941,482**	**-**	**-**	**-**	**-**	**1,941,482**
Manager's checks	**36,869**	**-**	**-**	**-**	**-**	**36,869**
Accrued interest and other expenses	**217,634**	**-**	**-**	**-**	**-**	**217,634**
Other liabilities	**646,243**	**-**	**-**	**-**	**-**	**646,243**
Total financial liabilities	**12,127,471**	**1,993,291**	**433,743**	**117,326**	**174,174**	**14,846,005**
Repricing gap	**P1,184,073**	**P1,262,419**	**P332,155**	**P987,300**	**P2,825,744**	**P6,591,691**
Cumulative gap	**P1,184,073**	**P2,446,492**	**P2,778,647**	**P3,765,947**	**P6,591,691**	**P -**

	2011					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Loans and receivables						
Cash and other cash items	P328,043	P -	P -	P -	P -	P328,043
Due from BSP	1,238,242	675,000	-	-	-	1,913,242
Due from other banks	4,676,566	-	-	-	-	4,676,566
Interbank loans receivable	2,717,680	4,256	-	-	-	2,721,936
Loans and discounts - gross	9,855,217	2,070,586	786,343	1,063,385	978,993	14,754,524
Other Assets	3,474	-	902	516	25,675	30,567
Financial assets at FVPL						
Government debt	-	27,244	-	7	52,308	79,559
Derivatives	637	-	-	-	-	637
AFS investments	-	-	-	-	642,622	642,622
HTM investments	29,968	56,081	-	-	178,746	264,795
Total financial assets	18,849,827	2,833,167	787,245	1,063,908	1,878,344	25,412,491
Financial Liabilities						
Financial liabilities at FVPL derivative liabilities	26	-	-	-	-	26
Other financial liabilities at amortized cost						
Deposit liabilities						
Demand	4,685,834	-	-	-	-	4,685,834
Savings	2,339,408	-	-	-	-	2,339,408
Time	7,576,809	2,079,699	203,529	187,028	208,333	10,255,398
Bills payable and outstanding acceptances	1,097,381	-	-	-	-	1,097,381
Manager’s checks	24,679	-	-	-	-	24,679
Accrued interest and other expenses	232,901	-	-	-	-	232,901
Other liabilities	953,213	-	-	-	-	953,213
Total financial liabilities	16,910,251	2,079,699	203,529	187,028	208,333	19,588,840
Repricing gap	P1,939,576	P753,468	P583,716	P876,880	P 1,670,011	P5,823,651
Cumulative gap	P1,939,576	P2,693,044	P3,276,760	P4,153,640	P5,823,651	P -

The following table sets forth, for the period indicated, the impact of the range of reasonably possible changes in the interest rates (accounting perspective) on the profit or loss and equity.

	Impact to Profit or Loss		**Impact to Equity**	
	2012	2011	**2012**	2011
PHP interest rates				
Increase by 15 bps	**(P108,876)**	P9,074,121	**(P4,137,204)**	P -
Increase by 20 bps	**(145,111)**	12,098,828	**(5,490,163)**	-
Increase by 25 bps	**(181,317)**	15,123,535	**(6,830,305)**	-
Decrease by 15 bps	**109,133**	(9,074,121)	**4,257,756**	-
Decrease by 20 bps	**145,569**	(12,098,828)	**5,704,494**	-
Decrease by 25 bps	**182,033**	(15,123,535)	**7,165,231**	-
USD interest rates				
Increase by 15 bps	**(13,726,013)**	3,358,289	**(34,214,285)**	(10,283,685)
Increase by 20 bps	**(18,218,916)**	4,471,052	**(45,413,502)**	(13,654,705)
Increase by 25 bps	**(22,672,538)**	5,588,815	**(56,511,747)**	(16,997,761)
Decrease by 15 bps	**14,091,119**	(3,358,289)	**35,162,479**	10,545,731
Decrease by 20 bps	**18,873,703**	(4,471,052)	**47,099,300**	14,120,596
Decrease by 25 bps	**23,699,817**	(5,588,815)	**59,146,050**	17,725,778

The Bank has exposures to other currencies that are not material.

The following table provides for the average effective interest rates by period of maturity or repricing of the Bank:

	2012		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**
Peso-denominated			
Financial Assets			
Due from BSP	**0.4%**	-	-
Due from other banks	**0.3%**	-	-
Interbank loans receivable	**1.5%**	-	-
Financial assets at FVPL	**4.5%**	**1.4%**	**6.0%**
AFS investments	-	-	**5.8%**
HTM investments	**4.7%**	**5.2%**	**3.6%**
Loans and receivables	**4.8%**	**6.2%**	**14.7%**
Financial Liabilities			
Deposit liabilities	**0.8%**	**2.2%**	**3.1%**
Bills payable	**1.9%**	-	-
Foreign Currency-denominated			
Financial Assets			
Due from other banks			
Interbank loans receivable	**0.5%**	-	-
Financial assets at FVPL	-	-	**4.0%**
AFS investments	-	-	**4.0%**
HTM investments	-	-	**4.9%**
Loans and receivables	**3.0%**	**3.5%**	**3.3%**
Financial Liabilities			
Deposit liabilities	**0.7%**	**1.2%**	**1.8%**
Bills payable	**0.2%**	-	-

	2011		
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated			
Financial Assets			
Due from BSP	1.1%	-	-
Due from other banks	0.3%	-	-
Interbank loans receivable	4.5%	-	-
Financial assets at FVPL	1.5%	1.4%	7.0%
AFS investments	-	-	7.3%
HTM investments	2.8%	4.1%	7.1%
Loans and receivables	4.8%	6.2%	14.2%
Financial Liabilities			
Deposit liabilities	1.2%	2.4%	3.8%
Bills payable	1.3%	-	-

Forward

	2011		
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Foreign Currency-denominated			
Financial Assets			
Due from other banks	-	-	-
Interbank loans receivable	0.1%	-	-
Financial assets at FVPL	-	-	4.6%
AFS investments	-	-	4.8%
HTM investments	-	-	5.0%
Loans and receivables	3.0%	2.8%	3.5%
Financial Liabilities			
Deposit liabilities	0.6%	1.4%	1.7%
Bills payable	0.8%	-	-

Prepayment Risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall. The Bank has exposures in consumer, e.g., salary loans, mortgage loans. These activities generate market risk since these loan products are inherently sensitive to changes in the level of market interest rates.

The impact on the Bank's profitability of mortgage loan prepayment risk is deemed negligible as actual prepayments were small relative to the loan portfolio.

Equity Price Risk

Equity price risk is the risk that the fair values of equity investments decrease as a result of changes in the levels of equity indices and the value of individual stocks (whether traded or not). The Bank has no significant exposure to equity price risk.

Operational Risk

Operational Risk is defined as the risk of loss arising from direct or indirect loss from inadequate internal processes, people, and systems or external events. The Direct Loss results primarily from an operational failure while the Indirect Loss relates to the impact of operational risk on other business units.

The Enterprise Wide Risk Management is responsible for establishing, overseeing and supporting the Bank’s Operational Risk Management (“ORM”) framework, achieved through:

- Development of policies and procedures;
- Providing guidance, support and advice in the identification, management and control of operational risks;
- Providing training of ORM practices and processes, and support the building of an appropriate risk management culture;
- Ensure that the Bank meets BSP Basel II and Parent Bank’s ORM requirements and the timely roll-out of Operational risk initiatives; and
- Objective and critical monitoring and reporting of Operational Risk activities, risk profiles and risk mitigation.

Operational Risk Process
To ensure that all operational risks of the different Business and Operating Units are reported and properly managed, the Bank promotes the Operational Risk Process Cycle to have a periodic risk process assessment.

The Bank requires all operating units, on a monthly basis, to formulate and use key risk indicators which represent standard measures that would indicate effectiveness operational risk management activities.

The Bank's Operational Risk Process is as follows:

Key Risk Identification Process
This involves the review of existing business processes, products and services with the aim of identifying vulnerabilities and assessing the extent of damage that can happen should breaches occur.

The Bank uses Key Risk Indicator (KRI) as an important tool in the identification, accessing and monitoring of operational risk. Also it established appropriate KRI items and alert levels to track operational risk exposure over time and act as early warning signals in the prevention of risk event.

Review and Document Policies and Procedures
In reviewing and documenting policies and procedures, each business and operating unit shall ensure clear and complete documentation of the following:

- Processes - Include all functions that are being done to ensure complete delivery of the transaction. This covers both client interface processes and internal control.

- People - Identify everyone involved in the process, their duties and responsibilities and required competencies.

- Reports - Identify those that would be needed to assess risk management effectiveness.

- Methodologies - Detail the tools and activities that would support decision making for critical areas of the process.

- Systems and Data - Cite the system and data requirement for the business unit to efficiently manage reports and methodologies employed.

All Business and Operating Units shall ensure that actual practices are consistent with documented policies and procedures.

Monitor and Formulate Action Plan
Monitoring and Formulating Action Plans against established standards, via the KRIs is an important component in ensuring that these standards are met. There are three units involved in the over-all formulation and monitoring of action plans for all Business and Functional Units.

- Business and Functional Units - They are expected to report the operational exceptions, deviations on the policies and procedures and deficiencies on the documentations and process.

- Enterprise Wide Risk Management Department (EWRMD) - Collates and consolidates the reports from the different business and operating units. They are also responsible for monitoring, analyzing and reporting operational risk losses and exposures to Management.

- Internal Audit Department (IAD) - Primarily responsible for ensuring that all Operations Units are in compliance with the set of policies and procedures (P and P). They should be able to provide an independent opinion on the effectiveness of established internal controls.

Management Oversight
On a monthly basis the Operations Committee convenes to discuss operational risk issues. This is presided by the President with the following members: Chief Risk Officer, Enterprise-wide Risk Officer, Information Security Officer, and Heads of Institutional Credit Risk Management Group, Retail Credit Risk Management Group, Institutional Banking Group, Retail Banking Group, Trust Department, Finance and Corporate Affairs, Information Technology, Banking Operations Group, Service Quality and Process Management, Internal Audit and Compliance.

Regulatory and proposed economic capital allocations using the Operational Risk Self Assessment will be presented to the Senior Management and the Board of Directors on an annual basis for approval.

<u>Strategic Risk</u>
Strategic risk is the risk that the current and prospective earnings or capital will be adversely impacted because of business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This definition gives importance to business planning, where business decisions and its implementation are derived from.

The strategic risk of the Bank is a function of the compatibility of its strategic goals, the quality of carrying out its implementation, and building the infrastructure to meet such goals.

Strategic risk is managed throughout the Bank and is primarily monitored by Finance and Corporate Affairs Unit through budget analysis and variances.

<u>Legal Risk</u>
Legal risks belong to non-quantifiable risks that are not subject to specific numerical measurements but likewise require similar management attention. While unpredictable, non-quantifiable risks may cause severe impact of the Bank's profit and loss. These risks are mitigated by developing a strong control culture, an organizational structure that is risk-aware, and an effective internal control system that continually monitors and updates processes and procedures.

Legal risks include the potential for the Bank to suffer a financial loss due to non-existent, incomplete, incorrect and/or unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. This risk is closely related to credit risk as it most often involves legal problems with counterparties to the Bank's transactions. It is also closely related to other non-quantifiable risks that have to be assessed: fiduciary, reputational risk and regulatory risk.

A legal review process is the primary control mechanism for legal risks and shall be part of every product program or process of the Bank. The review aims to validate the existence, propriety and enforceability of documents, and verify the capacity and authority of counterparties and customers to enter into transactions.

The Bank's Legal Department is the primary unit assigned to identify, assess, manage and monitor the Bank's legal risk.

Capital Management

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

The Bank considers its paid-in capital and retained earnings as its core economic capital.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

On November 28, 2012, the BSP issued Circular No. 775 requiring banks, which are majority-owned by foreign banks and are established in the Philippines, to list on the local stock exchange. These banks must do so within three years from the effectivity of the circular, which was 15 days after it was published in a newspaper of general circulation.

As of date the Bank is currently discussing internally and consulting with its Parent Bank on the Bank's plans to comply with Circular no. 775. Details of the plan, once finalized and duly approved, shall be incorporated in the Bank's capital management planning process. The Bank has until December 2015 to comply with the aforementioned.

Regulatory Qualifying Capital

The BSP, under BSP Circular 538 dated August 4, 2006 has prescribed guidelines in implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II Accord recommendations. The BSP guidelines took effect on July 1, 2007.

The Bank's regulatory capital consists of Tier 1 (core) capital, which comprises share capital and retained earnings including current year profit less required deductions such as deferred income tax and unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI). Certain adjustments are made to PFRSs-based results and reserves, as prescribed by the BSP. General loan loss provision is added back to Tier 2 supplementary capital, which is the other component of regulatory capital. The risk-based capital ratio of the Bank is expressed as a percentage of qualifying capital to risk-weighted assets, which are computed based on BSP regulations.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0% to 150% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

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 PFRSs in some aspects. The combined capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk assets. As of December 31, 2012 and 2011, the capital adequacy ratio of the Bank, as reported to the BSP, is 30.7% and 29.1%, respectively. In 2012 and 2011, the Bank has complied with the minimum capital requirements of the BSP.

The Bank has received the BSP comments dated May 4, 2012 on its Internal Capital Adequacy Assessment Process (ICAAP) 2011 document submitted last January 31, 2012. Per BSP letter, the document is found to be satisfactory but the Bank is enjoined to take into consideration specific comments and observations on its governance structure, as well as the capital assessment and monitoring processes. The Bank has considered these comments and observations of the BSP in its ICAAP document for the year 2012.

On January 15, 2013, the BSP issued Circular No. 781, which contains the approved implementing guidelines for the January 1, 2014 adoption of the revised capital standards under the Basel III Accord for universal and commercial banks (U/KBs) in the Philippines. Basel III is a set of international standards to strengthen the regulation, supervision and risk management of banks. It aims to improve banks' transparency and ability to absorb shocks from financial and economic stresses.

Under BSP Circular no. 781 dated January 15, 2013, U/KBs must have a capital adequacy ratio (CAR) of not lower than 10.0% at all times. Of this, Tier 1 capital, considered as the safest and most loss-absorbent type of capital, must form 7.5%. Tier 2 capital can make up the rest. Of the 7.5% Tier 1 capital, Common Equity Tier (CET) 1 capital must comprise at least 6.0%. Alternative Tier 1 (AT1) capital can make up the remainder.

The new guidelines introduce a capital conservation buffer of 2.5% which shall be made up of CET1 capital. This buffer is meant to promote the conservation of capital and build up of adequate cushion that can be drawn down by banks to absorb losses during periods of financial and economic stress.

Banks with CET1 capital less than the minimum 6.0% will not be allowed to distribute dividends, share buybacks, discretionary payments on Tier 1 capital instruments and discretionary bonus payments.

While the capitalization requirements have already been finalized for adoption beginning January 1, 2014, as of date new liquidity rules for the banking industry will still have to undergo formal consultations before being drafted. Under the international version of the BASEL III Accord for liquidity rules, banks are allowed to maintain a liquidity coverage ratio (LCR), devised to ensure banks have enough assets to cover for possible liquidity disruptions, of 60.0% by January 1, 2016, rising by 10.0 percentage-points per year until 2019.

Currently the Bank's qualifying capital is composed mainly of CET1 capital such as paid-up common stock, additional paid-in capital, and retained earnings. Adoption by the Bank of the capital guidelines contained in Circular no. 781 will not result in significant changes to the Bank's Capital Management Framework and ICAAP.

The Bank has internally adjusted its risk appetite thresholds and stress testing benchmarks to align the planned CAR to BASEL III revised minimum ratios which includes capital conservation buffer of 2.5%.

The Bank likewise will continue to monitor local developments relating to the rules on liquidity standards. The Bank will review and consider the pertinent rules and guidelines of BASEL III during its ICAAP review cycle in 2013.

Shown below are the Bank's minimum capital-to-risk assets ratios as reported to the BSP as of December 31, 2012 and 2011 (in millions except for percentages).

	2012	2011
Tier 1 capital	**P6,024**	P5,642
Tier 2 capital	**149**	164
Gross qualifying capital	**6,173**	5,806
Less: Required deductions	**-**	20
Total qualifying capital	**P6,173**	P5,786
Risk-weighted assets	**P20,091**	P19,872
Tier 1 capital ratio	**30.0%**	28.4%
Tier 2 capital ratio	**0.7%**	0.8%
Risk-based capital adequacy ratio	**30.7%**	29.1%

6. Fair Value Measurement

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

Cash and Other Cash Items, Due from BSP and Other Banks
Carrying amounts approximate fair values due to their short-term nature.

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

Equity Securities
Fair values of unquoted equity investments approximate carrying amounts (cost less allowance for impairment losses) due to the unpredictable nature of future cash flows and lack of suitable methods of arriving at reliable fair value.

Derivative Instruments
Derivative products are valued using valuation techniques with market observable inputs including foreign exchange rates and interest rate curves prevailing at the statement of financial position date. For interest rate swaps, cross-currency swaps and foreign exchange contracts, discounted cash flow model is applied. This valuation method discounts each cashflow of the derivatives at a rate that is dependent on the tenor of the cashflow.

Loans and Receivables
Fair values of loans subject to periodic interest repricing of more than one year are estimated based on the discounted cash flow methodology using the loan's latest interest rate. Carrying values of loans subject to periodic interest repricing of one year or less approximate fair value because of recent and regular repricing based on market conditions.

Deposit Liabilities
Carrying amounts of demand and savings deposit approximate fair values considering that these are currently due and demandable. Fair values of time deposits are estimated based on discounted cash flow methodology using the Bank's latest interest rates.

Other Financial Liabilities
Carrying values of liabilities, other than deposit liabilities approximates fair values due to their short-term nature.

The following table presents a comparison of the carrying amounts and fair values of all of the Bank's financial assets and liabilities.

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans and receivables				
Cash and other cash items	**P346,343,327**	**P346,343,327**	P328,042,939	P328,042,939
Due from BSP	**4,329,274,097**	**4,329,274,097**	1,913,242,125	1,913,242,125
Due from other banks	**456,845,726**	**456,845,726**	4,676,565,861	4,676,565,861
Interbank loans receivable	**-**	**-**	2,721,935,658	2,721,935,658
Loans and discounts				
Institutional banking	**6,592,443,960**	**6,592,443,960**	7,154,191,676	7,154,191,676
Retail banking	**3,270,567,917**	**3,067,207,233**	3,075,520,982	2,895,405,113
Mortgage banking	**1,777,984,019**	**1,734,105,683**	1,965,293,923	1,956,622,223
Small business loans	**609,802,714**	**609,802,714**	637,733,931	637,559,676
Accrued interest receivable	**135,399,889**	**135,399,889**	135,309,349	135,309,349
Other receivables	**656,346,957**	**656,346,957**	661,839,837	661,839,837
Unquoted debt securities	**577,425,205**	**577,425,205**	761,354,230	759,028,454
Other assets	**32,433,411**	**32,433,411**	30,567,230	30,567,230
Subtotal	**18,784,867,222**	**18,537,628,202**	24,061,597,741	23,870,310,141
Financial assets at FVPL				
Held-for-trading				
Government debt	**633,186,613**	**633,186,613**	79,558,638	79,558,638
Derivative assets	**2,795,889**	**2,795,889**	636,506	636,506
Subtotal	**635,982,502**	**635,982,502**	80,195,144	80,195,144
AFS investments				
Government debt	**1,327,239,383**	**1,327,239,383**	629,750,146	629,750,146
Unquoted equity securities	**12,984,317**	**12,984,317**	12,872,317	12,872,317
Subtotal	**1,340,223,700**	**1,340,223,700**	642,622,463	642,622,463
HTM investments				
Government debt	**332,696,411**	**350,721,975**	264,795,279	281,463,651
	P21,093,769,835	**P20,864,556,379**	P25,049,210,627	P24,874,591,399

Forward

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	**P3,713,623**	**P3,713,623**	P26,169	P26,169
Other financial liabilities at amortized cost				
Deposit liabilities				
Demand	**4,306,942,401**	**4,306,942,401**	4,685,833,626	4,685,833,626
Savings	**2,199,744,647**	**2,199,744,647**	2,339,407,911	2,339,407,911
Time	**5,493,376,167**	**5,482,948,506**	10,255,397,512	10,237,735,658
Subtotal	**12,003,776,838**	**11,993,349,177**	17,280,639,049	17,262,977,195
Bills payable	**1,929,350,000**	**1,929,350,000**	1,096,000,000	1,096,000,000
Outstanding acceptances	**12,132,312**	**12,132,312**	1,380,960	1,380,960
Manager's checks	**36,868,551**	**36,868,551**	24,679,175	24,679,175
Accrued interest and other expenses	**218,711,819**	**218,711,819**	232,900,593	232,900,593
Other liabilities	**646,243,362**	**646,243,362**	953,212,735	953,212,735
	P14,847,082,882	**P14,836,655,221**	P19,588,838,681	P19,571,176,827

Due from BSP includes lending to the Bangko Sentral ng Pilipinas (BSP) under reverse repurchase agreement amounting to nil and P2.6 billion as of December 31, 2012 and 2011, respectively.

The following ranges of discount rates were used in estimating the fair values of unquoted fixed-rate and floating-rate debt instruments:

	2012			
	USD		**PHP**	
	High	**Low**	**High**	**Low**
Unquoted debt securities	**-**	**-**	**-**	**-**
Loans and discounts				
Retail banking	**-**	**-**	**5.8%**	**3.0%**
Mortgage banking	**-**	**-**	**11.8%**	**5.3%**
Small business loans	**-**	**-**	**-**	**-**
Deposit liabilities - Time	**2.1%**	**2.0%**	**5.8%**	**2.0%**

	2011			
	USD		PHP	
	High	Low	High	Low
Unquoted debt securities	2.0%	2.0%	-	-
Loans and discounts				
Retail banking	-	-	5.7%	3.7%
Mortgage banking	-	-	13.0%	8.8%
Small business loans	-	-	13.0%	13.0%
Deposit liabilities - Time	2.0%	2.1%	3.2%	6.4%

The following table shows financial instruments recognized at fair value, analyzed by bases of fair value (in thousands):

- Level 1 - quoted market prices in active markets for identical assets or liabilities; when fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

- Level 2 - 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); for all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models; and

- Level 3 - those with inputs for the asset or liability that are not based on observable market data (unobservable inputs); instruments included in Level 3 are those for which there are currently no active market.

	2012				2011			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial Assets at FVPL								
Government debt	**P633,187**	**P -**	**P -**	**P633,187**	P79,559	P -	P -	P79,559
Derivative assets	**-**	**2,796**	**-**	**2,796**	-	637	-	637
AFS Investments								
Government debt	**1,327,239**	**-**	**-**	**1,327,239**	629,750	-	-	629,750
Clubshares	**-**	**400**	**-**	**400**	-	288	-	288
	P1,960,426	**P3,196**	**P -**	**P1,963,622**	P709,309	P925	P -	P710,234
Financial Liabilities at FVPL								
Derivative Liabilities	**P -**	**P3,714**	**P -**	**P3,714**	P -	P26	P -	P26

During 2012 and 2011, there were no transfers between Level 1 to Level 2 category and no transfers into and out of Level 3 fair value measurements.

7. Trading and Investment Securities

Financial assets at FVPL consist of the following:

	Note	**2012**	2011
Held-for-trading			
Government debt		**P633,186,613**	P79,558,638
Derivative assets	*27*	**2,795,889**	636,506
		P635,982,502	P80,195,144

Net unrealized gain (loss) in 2012 and 2011 on revaluation to market of financial assets at FVPL amounting to (P1.7 million) and P3.6 million, respectively, are included under “Trading and securities gain (loss) - net” in the statement of income.

AFS investments consist of the following:

	2012	2011
Government debt	**P1,327,239,383**	P629,750,146
Unquoted equity securities	**12,984,317**	12,872,317
	P1,340,223,700	P642,622,463

Unquoted equity securities include investments in BANCNET, Philippine Clearing House Corporation, Banker’s Association of the Philippines, Philippine Long Distance Company preferred shares and clubshares from Orchard Golf and Country Club and Subic Bay Yacht Club Corporation.

The movements of net unrealized gains (losses) on AFS investments follow:

	2012	2011	2010
Balance at the beginning of the year	**P12,229,680**	(P5,625,951)	(P4,090,772)
Unrealized gains (losses) recognized in other comprehensive income	**(46,135,529)**	(38,436,535)	(84,486,149)
Amount realized in profit or loss	**79,632,200**	56,292,166	82,950,970
Balance at end of the year	**P45,726,351**	P12,229,680	(P5,625,951)

In 2012, 2011 and 2010, the effective interest rates of Philippine government securities range from 0.6% to 6.7%, 1.4% to 7.3%, and from 3.7% to 7.2%, respectively.

Effective interest rates range from 5.9% to 6.1% and from 2.6% to 5.8% for peso-denominated and foreign currency-denominated AFS investments, respectively, in 2012. Effective interest rates range from 7.0% to 8.1% and from 4.1% to 6.7% for peso-denominated and foreign currency-denominated AFS investments, respectively, in 2011. Effective interest rates range from 7.0% to 7.2% and from 3.7% to 6.4% for peso-denominated and foreign currency-denominated AFS investments, respectively, in 2010.

HTM investments consist of Philippine government treasury notes that bear nominal annual interest rates ranging from 5.9% to 12.4%, 2.4% to 8.0%, and from 2.4% to 8.0%, in 2012, 2011 and 2010, respectively.

On November 8, 2012, the BTr, as part of its country liability management exercises, launched a Buyback Invitation covering certain ROP bonds held by the Bank as HTM investments. The Bank has tendered and participated in the BTr Buyback Invitation and has complied with the conditions given by the Philippine SEC for the purpose of availing the exemptive relief from PAS 39 tainting rule.

Prior to participating with the BTr Buyback Invitation, the book value amount of the Bank's HTM Investment was USD3.5 million (P142.6 million). On November 15, 2012, the Bank tendered ROP bonds with total notional amount of USD2 million, with total cash proceeds amounting to USD2.4 million received on November 27, 2012.

On December 4, 2012, the Bank disclosed to the Philippine SEC the purchase of replacement ROP bonds classified as HTM investments with total notional and cash settlement amounts of USD2 million and USD3.6 million, respectively. The replacement ROP bond purchase price was settled on December 7, 2012. Immediately after the acquisition of the replacement ROP bonds, the book value amount of the Bank's HTM investments stood at USD4.8 million (P198.5 million).

As a result of participating in the BTr Buyback Invitation, the Bank's day 1 difference amounted to USD0.2 million (P6.4 million), which was not recognized in profit or loss but was instead deferred and will be amortized over the remaining term of the newly-purchased replacement ROP bond, in accordance with the Philippine SEC requirements. Amortization began in January 2013.

Had the Bank not complied in full with the conditions given by Philippine SEC, the Bank's HTM Investment portfolio would have been tainted under PAS 39, and as such, the Bank will have to reclassify its entire HTM Investment holdings with total carrying value of P332.7 million to AFS investments to be carried at fair value amounting to P350.7 million, with unrealized fair value changes recognized in "Net unrealized gain on available-for-sale investments" in equity, amounting to P18.0 million as of December 31, 2012, and net income before tax of the Bank would have increased by P6.4 million.

Interest income on trading and investment securities consists of:

	2012	2011	2010
Financial assets at FVPL	**P89,574,003**	P100,073,392	P84,617,352
AFS investments	**35,819,040**	46,717,187	65,438,500
HTM investments	**11,877,351**	12,814,752	9,852,971
	P137,270,394	P159,605,331	P159,908,823

Trading and securities gain (loss) - net consists of:

	2012	2011	2010
Financial assets at FVPL	**P187,580,423**	P257,928,351	P167,721,356
AFS investments	**79,632,200**	56,292,166	82,950,970
	P267,212,623	P314,220,517	P250,672,326

Net loss on derivative transactions amounting to P1.4 million, P4.2 million, and P1.8 million in 2012, 2011 and 2010, respectively, are included under "Foreign exchange gain (loss) - net" in the statement of income (Note 27).

8. Loans and Receivables

This account consists of:

	Note	**2012**	2011
Loans and discounts			
Institutional banking		**P6,603,031,322**	P7,188,824,474
Retail banking		**3,533,813,449**	3,320,179,726
Mortgage banking		**1,795,304,637**	1,992,731,311
Small business loans		**611,520,412**	639,446,705
Accrued interest receivable		**143,715,683**	142,353,600
Other receivables		**683,025,747**	683,340,117
		13,370,411,250	13,966,875,933
Unquoted debt securities		**593,485,861**	787,647,945
		13,963,897,111	14,754,523,878
Unearned interest discount and capitalized interest		**(28,685,388)**	(46,351,751)
		13,935,211,723	14,708,172,127
Allowance for impairment and credit losses	*12*	**(405,574,567)**	(384,141,372)
		P13,529,637,156	P14,324,030,755

Other receivables include due from Integrated Credit and Corporate Services (ICCS) representing impaired loans amounting to P343.7 million and P323.9 million as of December 31, 2012 and 2011, respectively, which are secured by real properties transferred to ICCS.

Other receivables also include sales contract receivables amounting to P110.5 million and P85.4 million as of December 31, 2012 and 2011, respectively, which bear fixed interest rates per annum ranging from 8.0% to 12.0% and 8.5% to 12.0% in 2012 and 2011, respectively.

Institutional loans include domestic bills purchased amounting to P184.2 million and P176.0 million as of December 31, 2012 and 2011, respectively (Note 16).

Unquoted debt securities represent private and government bonds not quoted in an active market. These investments are classified as loans and receivables in accordance with PAS 39.

Interest income on loans and receivables consists of:

	2012	2011	2010
Retail banking	**P939,348,382**	P914,783,235	P981,617,250
Institutional banking	**328,515,515**	354,827,036	426,462,061
Mortgage banking	**147,101,561**	174,795,285	201,264,071
Small business loans	**30,557,265**	31,340,282	29,973,751
Unquoted debt securities	**29,910,503**	43,777,105	71,953,708
Other receivables	**2,631,584**	2,308,501	3,156,971
	P1,478,064,810	P1,521,831,444	P1,714,427,812

The effective interest rates of “Loans and discounts,” “Unquoted debt instruments” and “Sales contract receivables” range from 2.8% to 4.0% in 2012 and from 2.6% to 4.9% in 2011 for foreign currency-denominated receivables and from 11.5% to 14.7% and from 11.0% to 14.3% in 2011 for peso-denominated receivables.

The Bank’s loan portfolio includes non-risk loans, as defined under BSP regulations, totaling P501.2 million and P1.7 billion as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, 25.8% and 21.8%, respectively, of the total loans of the Bank are subject to periodic interest repricing. Remaining loans earn annual fixed interest rates ranging from 2.0% to 41.5% and from 2.0% to 41.5% in 2012 and 2011, respectively, for peso-denominated loans and from 1.4% to 5.4% and from 2.0% to 5.4% for foreign currency-denominated loans, respectively.

Interest income accrued on loans and receivables includes unwinding of the allowance for impairment and credit losses amounting to P0.5 million and P0.1 million as of December 31, 2012 and 2011, respectively.

9. Property and Equipment

The composition of and movements in this account in 2012 and 2011 follow:

	2012					
	Bank Premises	**Computer Equipment**	**Transportation Equipment**	**Furniture, Fixtures and Equipment**	**Leasehold Rights and Improvements**	**Total**
Cost:						
Balance at beginning of year	**P71,554,360**	**P175,561,345**	**P80,344,617**	**P96,843,087**	**P330,690,597**	**P754,994,006**
Additions	**2,000,000**	**15,247,922**	**15,359,552**	**1,077,955**	**11,306,767**	**44,992,196**
Disposals and reclassifications	-	**(24,238,012)**	**(17,669,719)**	**(4,521,192)**	**(150,542)**	**(46,579,465)**
Balance at end of year	**73,554,360**	**166,571,255**	**78,034,450**	**93,399,850**	**341,846,822**	**753,406,737**
Accumulated depreciation and amortization:						
Balance at beginning of year	**26,200,580**	**137,656,423**	**36,650,782**	**69,981,601**	**237,815,843**	**508,305,229**
Depreciation and amortization	**3,008,389**	**23,272,611**	**14,543,189**	**8,389,945**	**32,033,167**	**81,247,301**
Disposals and reclassifications	**-**	**(23,105,535)**	**(9,966,909)**	**(4,513,564)**	**-**	**(37,586,008)**
Balance at end of year	**29,208,969**	**137,823,499**	**41,227,062**	**73,857,982**	**269,849,010**	**551,966,522**
Net book value at end of year	**P44,345,391**	**P28,747,756**	**P36,807,388**	**P19,541,868**	**P71,997,812**	**P201,440,215**

	2011					
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost:						
Balance at beginning of year	P68,634,360	P157,397,130	P73,416,507	P92,135,396	P295,481,021	P687,064,414
Additions	2,920,000	24,338,197	21,548,106	7,383,998	35,449,495	91,639,796
Disposals and reclassifications	-	(6,173,982)	(14,619,996)	(2,676,307)	(239,919)	(23,710,204)
Balance at end of year	71,554,360	175,561,345	80,344,617	96,843,087	330,690,597	754,994,006
Accumulated depreciation and amortization:						
Balance at beginning of year	23,252,459	124,878,527	30,416,707	62,252,455	196,508,422	437,308,570
Depreciation and amortization	2,948,121	18,951,658	14,719,134	10,283,766	41,544,396	88,447,075
Disposals and reclassifications	-	(6,173,762)	(8,485,059)	(2,554,620)	(236,975)	(17,450,416)
Balance at end of year	26,200,580	137,656,423	36,650,782	69,981,601	237,815,843	508,305,229
Net book value at end of year	P45,353,780	P37,904,922	P43,693,835	P26,861,486	P92,874,754	P246,688,777

10. Investment Properties

The Bank's investment properties consist of condominium units. Movements in this account in 2012 and 2011 follow:

	2012	2011
Cost		
Balance at beginning of year	**P4,428,000**	P5,995,370
Additions	**328,110**	9,448,000
Disposals/others	**-**	(11,015,370)
Balance at end of year	**4,756,110**	4,428,000
Accumulated depreciation		
Balance at beginning of year	**90,367**	3,111,197
Depreciation	**127,374**	131,645
Disposals/others	**-**	(3,152,475)
Balance at end of year	**217,741**	90,367
Allowance for probable losses	**110,368**	-
Net book value at end of year	**P4,428,001**	P4,337,633

The aggregate fair value of the investment properties of the Bank amounted to P4.4 million as of December 31, 2012 and 2011. The fair value of the Bank's investment properties has been arrived at on the basis of recent sales of similar properties in the same areas and taking into account the economic conditions prevailing at the time the valuations were made.

It is the Bank's policy to dispose assets acquired in an orderly fashion. The proceeds of the sale of the foreclosed assets (classified as "Investment properties") are used to reduce or repay the outstanding loan balance. The Bank does not occupy repossessed properties for business use.

11. Other Assets

This account consists of:

	2012	2011
Computer software costs - net	**P127,288,631**	P116,049,130
Rental deposit	**32,151,124**	29,817,582
Prepaid expenses and other charges	**24,661,563**	23,484,046
Returned checks and other cash items	**282,287**	749,648
Miscellaneous	**19,200,253**	93,350,406
	P203,583,858	P263,450,812

Miscellaneous assets include software items under installation process, documentary stamps on hand, and stationery and office supplies. As of December 31, 2012 and 2011, hardware and software items under installation process amounted to P10.2 million and P59.4 million, respectively.

The movements in computer software costs follow:

	2012	2011
Cost		
Balance at beginning of year	**P347,383,226**	P301,683,494
Additions	**46,864,685**	50,455,175
Disposals, reclassifications and write-offs	**(1,764,551)**	(4,755,443)
Balance at end of year	**392,483,360**	347,383,226
Accumulated amortization		
Balance at beginning of year	**231,334,096**	204,672,267
Amortization	**33,880,949**	27,417,262
Disposals, reclassifications and write-offs	**(20,316)**	(755,433)
Balance at end of year	**265,194,729**	231,334,096
	P127,288,631	P116,049,130

12. Allowance for Impairment and Credit Losses

Movements in the allowance for credit losses on loans and receivables follow:

	2012					
	Institutional Banking	**Mortgage Banking**	**Small Business Loans**	**Retail Banking**	**Other Receivables**	**Total**
Balance at beginning of year	**P31,493,853**	**P9,848,952**	**P1,713,187**	**P244,658,746**	**P96,426,634**	**P384,141,372**
Provisions for credit losses	**31,005,294**	**(3,370,116)**	**222,852**	**150,849,953**	**13,361,094**	**192,069,077**
Accounts charged off and others	**(53,935,419)**	**(400,132)**	**(246,457)**	**(132,263,165)**	**16,209,291**	**(170,635,882)**
Balance at end of year	**P8,563,728**	**P6,078,704**	**P1,689,582**	**P263,245,534**	**P125,997,019**	**P405,574,567**

	2011					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
Balance at beginning of year	P65,444,280	P43,816,302	P1,771,857	P980,167,125	P144,738,734	P1,235,938,298
Provisions for credit losses	6,982,771	(24,009,849)	(58,670)	235,534,630	3,990,865	222,439,747
Accounts charged off and others	(40,933,198)	(9,957,501)	-	(971,043,009)	(52,302,965)	(1,074,236,673)
Balance at end of year	P31,493,853	P9,848,952	P1,713,187	P244,658,746	P96,426,634	P384,141,372

Impairment Assessment

The Bank recognizes impairment losses based on the results of its specific (individual) and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Bank in assessing and measuring impairment include:

a. Specific (Individual) Assessment

The Bank assesses each individually significant credit exposure or advances for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment.

The Bank's process of specific impairment follows the incurred loss method when recognizing loss on impaired financial asset, consistent with the requirement of PAS 39. Impairment is identified when an objective evidence of a specific loss event has been observed. Observable data that will trigger an impairment may include any of the following: (a) significant financial difficulty of the issuer or obligor, (b) default or delinquency in interest or principal payments, (c) probability that the borrower may enter into bankruptcy or other financial reorganization, (d) disappearance of an active market for that asset because of financial difficulties, (e) and other factors that may result to losses. In general, but not limited to, loans that are adversely classified, past due, items in litigation, and restructured, are also subjected to impairment. The impairment of the account is calculated by the comparison of the discounted estimated future cash flows against the carrying value of the loan. If the sum of all discounted estimated future cash flows is less than the carrying value of the asset, then the asset would have to be written down to its total discounted future cash flows.

Nevertheless, if the impaired account is found to be not specifically impaired, then it will collectively be assessed for impairment according to its risk grouping. The impairment allowances, if any, are evaluated semi-annually or as the need arises in view of favorable or unfavorable developments.

b. Collective Assessment

Impaired loans that are not individually assessed for impairment as well as loans, which are individually assessed for impairment but not found to be impaired, shall be included in a relevant portfolio for collective impairment testing. The collective impairment is prepared using the historical loss rates approach for mortgage loans and institutional loans and the net flow rate methodology for personal loans. A monthly portfolio review is performed to determine the appropriate allowances.

For the mortgage and institutional loans, the historical loss rates are calculated by economic industry, which is the average ratio of the loss reserves applied against the outstanding loans with a minimum three-year period.

For personal loans, the Bank used net flow rate methodology for the years ended December 31, 2012 and 2011. Net flow rate methodology considers historical movements of loan accounts to compute for probable future losses. The decay rate methodology used in 2010 estimates the percentage of accounts that will eventually flow to 181 days or more past due, which is considered the tipping point when the account becomes a total loss. The change in accounting estimate starting 2011 is made to further increase consideration of the behavior and movement direction of the loan accounts into the impairment testing.

With the foregoing level of allowance for impairment and credit losses, management believes that the Bank has sufficient allowance to cover any losses that it may incur from the noncollection or nonrealization of its loans and receivables and other risk assets.

Below is the breakdown of provision for (recovery from) credit losses by type of loans and receivable:

	2012		
	Specific Impairment	**Collective Impairment**	**Total**
Loan and discounts	**P12,463,526**	**P166,244,457**	**P178,707,983**
Other receivables	**(792,401)**	**14,153,495**	**13,361,094**
Total	**P11,671,125**	**P180,397,952**	**P192,069,077**

	2011		
	Specific Impairment	Collective Impairment	Total
Loan and discounts	(P59,783,934)	P278,232,816	P218,448,882
Other receivables	(5,934,500)	9,925,365	3,990,865
Total	(P65,718,434)	P288,158,181	P222,439,747

	2010		
	Specific Impairment	Collective Impairment	Total
Loan and discounts	P53,877,537	P232,404,483	P286,282,020
Other receivables	11,009,769	(208,087)	10,801,682
Total	P64,887,306	P232,196,396	P297,083,702

BSP Reporting
Loan provisioning under BSP regulations hinges on the qualitative appraisal and classification of the loan. Aside from classifying loans to past due and current, these are also grouped as unclassified or classified.

These classified loans are further grouped depending on the likelihood of losses the Bank will incur. A specific percentage of outstanding balance of the loan based on its classification is set up as allowance for probable losses. The list of classifications and allowance for losses percentage include: (a) Especially mentioned (5%), (b) Substandard - secured (10%) and - unsecured (25%), (c) Doubtful (50%), (d) Loss (100%). Definitions of each classification are as follows:

I. Especially Mentioned - These are loans or portions thereof where there is an evidence of weakness in the borrower's financial condition or creditworthiness, or which are subject to an unrealistic repayment program or inadequate source of funds or where there is a lack of adequate collateral, credit, information or documentation.

II. Substandard - These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. The normal repayment of these loans may be in jeopardy by reason of severely adverse trends or development of a financial, managerial, economic or political nature or important weakness in collateral/security position. Prompt corrective action is required to strengthen the Bank's position or to reduce its exposure and to assure that adequate remedial measures are taken by the borrower.

III. Doubtful - These are loans or portions thereof the full liquidation of which, on the basis of available information, appears questionable and suggests a degree of eventual loss may be incurred but not yet determinable as to the amount. Positive and vigorous action is required to avert or minimize loss. Non-accrual of interest is mandatory; however, memorandum tracking of interest due must be maintained. Reserves are required to be considered.

IV. Loss - These are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted, notwithstanding the fact that the loans may have some recovery or salvage value. The amount of loan recovery is difficult to measure and it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be obtained in the future.

In addition to the allowance for probable losses on classified loans, BSP requires a general provision to be set up on unclassified loans considered as non risk under existing guidelines, as follows: five percent (5%) allowance on the restructured loans that are unclassified and one percent (1%) general loan loss provision on all other unclassified loans.

Current bank 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 for credit losses, provided that interest on said loans shall not be accrued. Accordingly, NPLs not fully covered by allowance credit losses follow:

	2012	2011
NPLs	**P328,443,083**	P350,844,140
Less NPLs fully provided with allowance for credit losses	**154,295,055**	139,421,469
	P174,148,028	P211,422,671

13. Deposit Liabilities

As of December 31, 2012 and 2011, 24.41% and 16.2%, respectively, of the total deposit liabilities of the Bank are subject to periodic interest repricing, while 4.3% and 3.4%, respectively, of the total deposits are noninterest-bearing. The remaining deposit liabilities earn annual fixed interest rates ranging from 0.3% to 8.6% and from 0.3% to 4.8% in 2012 and 2011, respectively.

In 2011, non-FCDU deposit liabilities of the Bank are subject to liquidity reserve equivalent to 11% and statutory reserve equivalent to 10%.

On March 29, 2012, the BSP issued Circular No. 753, which contains the rules and regulations for the unification of the statutory and liquidity reserve requirements effective on the reserve week starting on April 6, 2012. Circular No. 753, among others:

- Unifies the statutory and liquidity reserve requirements, from 11% and 10%, respectively, to 18%;

- Excludes cash in vaults and demand deposits as eligible forms of reserve requirement compliance; and

- Reserve Deposit Account (RDA) with BSP will continue to be eligible as compliance with the reserve requirement until they mature. New RDA placements will no longer be accepted as the facility will be discontinued beginning April 6, 2012.

In 2012 and 2011, the Bank is in compliance with such reserve requirements regulations.

The total liquidity and statutory reserves, as reported to the BSP, are as follows:

	2012	2011
Cash	**P303,623,824**	P313,687,214
Due from BSP	**1,549,561,127**	1,922,154,911
	P1,853,184,951	P2,235,842,125

Interest expense on deposit liabilities consists of:

	2012	2011	2010
Time	**P124,236,581**	P172,570,994	P319,168,187
Demand	**19,389,618**	43,566,479	61,695,580
Savings	**6,671,966**	8,669,326	9,150,302
	P150,298,165	P224,806,799	P390,014,069

14. Bills Payable

This account consists of short-term borrowings from banks and other financial institutions amounting to P1.9 billion and P1.1 billion as of December 31, 2012 and 2011, respectively.

The Bank is an accredited Participating Financial Institution (PFI), as a conduit bank for Official Development Assistance Wholesale Lending Facilities managed by various government or sovereign lending institutions.

Peso-denominated interbank borrowings are subject to annual fixed interest rates ranging from 4.21% to 4.59% and from 1.0% to 4.8% for the years ended December 31, 2012 and 2011, respectively.

Interest expense on bills payable amounted to P5.8 million, P6.0 million, and P5.2 million in 2012, 2011 and 2010, respectively.

15. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Note	**2012**	2011
Accrued interest		**P34,977,757**	P66,150,743
Accrued taxes and other expenses		**192,081,302**	172,848,984
Net retirement liability	19	**7,977,692**	2,869,994
		P235,036,751	P241,869,721

Accrued taxes and other expenses refer to various payables for taxes and licenses, payroll, utilities and other expenses.

16. Other Liabilities

This account consists of:

	Note	**2012**	2011
Accounts payable		**P690,557,706**	P774,669,365
Bills purchased - contra	*8*	**184,218,291**	176,033,484
Withholding taxes payable		**21,322,220**	19,665,878
Payment order payable		**3,960,244**	2,509,886
Miscellaneous		**8,864,570**	11,528,781
		P908,923,031	P984,407,394

17. Maturity Analysis of Assets and Liabilities

The following tables present the assets and liabilities as of December 31, 2012 and 2011 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from statement of financial position date (amounts in thousand pesos):

		2012			2011		
	Note	**Within One Year**	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets							
Loans and receivables							
Cash and other cash items		**P346,343**	**P -**	**P346,343**	P328,043	P -	P328,043
Due from BSP		**4,329,274**	**-**	**4,329,274**	1,913,242	-	1,913,242
Due from other banks		**456,846**	**-**	**456,846**	4,676,566	-	4,676,566
Interbank loans receivable		**-**	**-**	**-**	2,721,936	-	2,721,936
Loans and receivables - gross	*8*	**6,793,198**	**7,170,699**	**13,963,897**	7,216,846	7,537,678	14,754,524
Other assets		**4,950**	**27,483**	**32,433**	4,892	25,675	30,567
Subtotal		**11,930,611**	**7,198,182**	**19,128,793**	16,861,525	7,563,353	24,424,878
Financial assets at FVPL		**79,815**	**556,168**	**635,983**	27,887	52,308	80,195
AFS investments		**-**	**1,340,224**	**1,340,224**	-	642,622	642,622
HTM investments		**1,006**	**331,690**	**332,696**	86,048	178,747	264,795
		12,011,432	**9,426,264**	**21,437,696**	16,975,460	8,437,030	25,412,490
Nonfinancial Assets							
Property and equipment		**-**	**201,440**	**201,440**	-	246,689	246,689
Investment properties - net	*10*	**-**	**4,428**	**4,428**	-	4,338	4,338
Deferred tax assets - net		**-**	**186,214**	**186,214**	-	282,784	282,784
Other assets		**27,399**	**143,752**	**171,151**	56,145	176,738	232,883
		27,399	**535,834**	**563,233**	56,145	710,549	766,694
		12,038,831	**9,962,098**	**22,000,929**	17,031,605	9,147,579	26,179,184
Less:Allowance for impairment and credit losses	*12*	**-**	**-**	**(405,575)**	-	-	(384,141)
Unearned discount and capitalized interest	*8*	**-**	**-**	**(28,685)**	-	-	(46,352)
		P12,038,831	**P9,962,098**	**P21,566,669**	P17,031,605	P9,147,579	P25,748,691

		2012			2011		
	Note	**Within One Year**	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities							
Financial liabilities at FVPL							
Derivative liabilities		**P3,714**	**P -**	**P3,714**	P26	P -	P26
Other Financial liabilities at amortized cost							
Deposit liabilities		**11,926,989**	**73,074**	**12,000,063**	17,176,414	104,225	17,280,639
Bills payable		**1,929,350**	**-**	**1,929,350**	1,096,000	-	1,096,000
Outstanding acceptances		**12,132**	**-**	**12,132**	1,381	-	1,381
Manager's checks		**36,869**	**-**	**36,869**	24,679	-	24,679
Accrued interest and other expenses		**218,712**	**-**	**218,712**	232,901	-	232,901
Other liabilities		**646,243**	**-**	**646,243**	953,213	-	953,213
		14,774,009	**73,074**	**14,847,083**	19,484,614	104,225	19,588,839
Nonfinancial Liabilities							
Accrued taxes		**16,325**	**-**	**16,325**	8,969	-	8,969
Income tax payable		**8,934**	**-**	**8,934**	7,895	-	7,895
Other liabilities		**262,680**	**-**	**262,680**	31,195	-	31,195
		287,939	**-**	**287,939**	48,059	-	48,059
		P15,061,948	**P73,074**	**P15,135,022**	P19,532,673	P104,225	P19,636,898

18. Equity

Capital stock consists of the following (in thousands):

	Shares	Amount
Common stock - P10 par value		
Authorized	300,000	P3,000,000
Issued and outstanding	247,969	2,479,687
Balance at beginning and end of the year	247,969	P2,479,687

As of December 31, 2012 and 2011, the number of holders of the Bank's outstanding common shares is 99 and 102, respectively.

The shares of the Bank were listed in the PSE since June 1999. In December 2000, Chinatrust Taipei substantially increased its equity in the Bank through the acquisition of shares held by a minority group. As a result of this acquisition, Chinatrust Taipei controlled approximately 91.0% of the Bank's capital stock compared to 57.0% prior to the acquisition. The General Banking Law of 2000 allows foreign banks to own up to 100.0% of Philippine incorporated banks, compared to 60.0% under the previous law. A further acquisition of shares held by the public representing approximately 4.0% of the Bank's equity was made by Chinatrust Taipei in January 2001 through a tender offer at a price of P19.0 per share, the same price at which the shares from the minority group was acquired. In May 2001, Chinatrust Taipei purchased another 4.0% of the outstanding shares at a price of P18.3 per share.

On October 7, 2011, the BOD authorized the Bank to file a petition for voluntary delisting with the PSE and to purchase the outstanding shares through a tender offer in accordance with the rules of the PSE, subject to prior regulatory approval. On December 15, 2011, the Bank obtained approval for the delisting and share buyback at a price of P26.14 per share through a special stockholders' meeting as required by the Bank's By-Laws. On December 19, 2011, the Bank received the approval of the Monetary Board for the delisting and share buyback. On January 27, 2012, 0.5 million common shares held by minority stockholders amounting to P12.7 million were tendered to and reacquired by the Bank. On February 8, 2012, the PSE approved the Bank's petition for voluntary delisting. Official delisting of the Bank's shares from the Trading Board became effective on February 24, 2012, after payment of pertinent fees.

On November 28, 2012, the BSP issued Circular No. 775 requiring banks, which are majority-owned by foreign banks and are established in the Philippines, to list on the local stock exchange. These banks must do so within three years from the effectivity of the circular, which was 15 days after it was published in a newspaper of general circulation.

Circular No. 775 cited as basis the provisions of Republic Act (RA) No. 7721 or "An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for other purposes."

Section 2 of RA No. 7721 cited the listing requirement for foreign banks that entered the country by buying as much as 60.0% of an existing bank or investing in up to 60.0% of the voting stock of a new subsidiary incorporated in the country.

As of date, the Bank is discussing internally and consulting with its Parent Bank on the Bank's plans to comply with Circular no. 775. Details of the plan, once finalized and duly approved, shall be incorporated in the Bank's capital management planning process. The Bank has until December 2015 to comply with the aforementioned circular.

As discussed in Note 5, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRSs in some respects. Specifically, under existing banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10.0%) of its risk assets.

BSP issued Circular No. 639 dated January 15, 2009 mandates the use of ICAAP by all universal and commercial banks to determine their minimum required capital relative to their business risk exposures. The Bank considers its paid-in capital and retained earnings as its core economic capital.

At the regular meeting of the BOD held on February 23, 2012, the BOD approved the restriction of the full amount of retained earnings for the following purposes:

i.) to comply with the requirements of the ICAAP pursuant to BSP relevant requirements;

ii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise; and,

iii.) to provide for buffer in preparation for BASEL III requirements.

The restriction on retained earnings relating to ICAAP and BASEL III ensure that the Bank has adequate, available qualified capital at all times to reasonably manage the significant risks identified and assessed in the ICAAP and BASEL III.

The Bank's treasury shares were acquired in relation to the Bank's delisting and share buyback exercise, concluded in February 2012. Restriction on retained earnings relating to treasury shares shall be lifted once the Bank's treasury stock has been fully disposed of. The restriction is also to ensure full compliance with regards to the rules on treasury shares in the Corporation Code of the Philippines.

As of December 31, 2012 and 2011, appropriations of retained earnings for trust operations amounted to nil and P0.6 million, respectively. As of December 31, 2012, appropriation of retained earnings for treasury shares acquisition amounted to P16.0 million.

On January 15, 2013, the BSP issued Circular No. 781, which contains the approved the implementing guidelines for the January 1, 2014 adoption of the revised capital standards under the Basel III Accord for universal and commercial banks (U/KBs) in the Philippines. Guidelines under BASEL III require banks to maintain higher quality regulatory capital, such as capital stock and retained earnings.

19. Retirement Plans

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

The date of the last actuarial valuation is December 31, 2012.

The principal actuarial assumptions used in determining retirement liability/asset for the Bank's retirement plan are shown below:

	January 1	
	2012	2011
Retirement age	**60 years**	60 years
Average remaining working life	**14 years**	26.6 years
Discount rate	**6.1%**	10.5%
Expected rate of return on assets	**5.0%**	6.0%
Future salary increases	**5.0%**	5.0%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

The net retirement liability recognized in the Bank's statement of financial position is as follows:

	2012	2011
Fair value of plan assets	**P107,624,565**	P86,493,682
Present value of funded obligation	**(88,100,266)**	(140,294,721)
Surplus (deficit)	**19,524,299**	(53,801,039)
Unrecognized actuarial losses (gains)	**(27,501,991)**	50,931,045
Net retirement asset (liability)	**(P7,977,692)**	(P2,869,994)

Movements in accumulated unrecognized actuarial gains (losses) of the Bank follow:

	2012	2011	2010
Balance at beginning of year	**(P50,931,045)**	P4,575,354	P7,036,519
Actuarial gain (losses) on the present value of the defined benefit obligation	**78,433,036**	(55,506,399)	(2,461,165)
Balance at end of year	**P27,501,991**	(P50,931,045)	P4,575,354

The movements in the retirement asset/ (liability) recognized in the Bank's statement of financial position follow:

	2012	2011
Balance at beginning of year	**(P2,869,994)**	P2,439,622
Retirement expense	**(23,336,184)**	(15,358,492)
Contribution paid	**18,228,486**	10,048,876
Balance at end of year	**(P7,977,692)**	(P2,869,994)

The actual return on plan assets amounted to P11.2 million, P5.9 million, and P8.1 million in 2012, 2011 and 2010, respectively.

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

	2012	2011
Balance at beginning of year	**P140,294,721**	P72,885,702
Current service cost	**13,738,684**	12,519,430
Interest cost	**11,462,079**	7,652,999
Benefits paid	**(8,248,123)**	(9,385,682)
Actuarial losses	**(69,147,095)**	56,622,272
Balance at end of year	**P88,100,266**	P140,294,721

The movements in the fair value of plan assets recognized follow:

	2012	2011
Balance at beginning of year	**P86,493,682**	P79,900,678
Expected return on plan assets	**4,324,684**	4,813,937
Contributions paid	**18,228,486**	10,048,876
Benefits paid	**(8,248,123)**	(9,385,682)
Actuarial gains	**6,825,836**	1,115,873
Balance at end of year	**P107,624,565**	P86,493,682

The Bank expects to contribute P23.3 million to its defined benefit retirement plans in 2013.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	2012	2011
Debt instruments	**79.2%**	42.5%
Equity instruments	**14.4%**	9.7%
Other assets	**6.4%**	47.8%

Other assets are composed of investment in special deposit account with the BSP and time placements with the Bank and demand deposit with other banks.

The amounts included in "Compensation and Fringe Benefits" in the Bank's statement of income follow:

	2012	2011	2010
Current service cost	**P13,738,684**	P12,519,430	P10,429,287
Interest cost	**11,462,079**	7,652,999	6,440,568
Expected return on plan assets	**(4,324,684)**	(4,813,937)	(4,381,357)
Net actuarial (gain) loss	**2,460,105**	-	-
	P23,336,184	P15,358,492	P12,488,498

Information on the Bank's retirement plan follows:

	2012	2011	2010	2009	2008
Fair value of plan assets	**P107,624,565**	P86,493,682	P79,900,678	P74,197,903	P88,544,338
Present value of funded obligation	**(88,100,266)**	(140,294,721)	(72,885,702)	(57,711,181)	(77,533,774)
(Surplus) deficit	**(19,524,299)**	53,801,039	7,014,976	16,486,722	11,010,564
Experience adjustments on plan liabilities	**(98,097,418)**	16,599,575	(190,318)	1,429,901	(112,500)
Experience adjustments on plan assets	**6,825,836**	1,115,873	3,672,002	6,256,978	(7,793,612)

20. Leases

The Bank leases certain equipment and premises of its head office and branches. The lease contracts are for periods ranging from 1 to 10 years and are renewable at the Bank's option under certain terms and conditions. Various lease agreements include escalation clauses, most of which bear an annual rent increase of 5.0% to 10.0%. The lease agreements do not have contingent rent provisions.

Rent expense (included under "Occupancy and other equipment-related costs" in the statement of income) incurred by the Bank amounted to P109.4 million, P107.5 million, and P107.4 million in 2012, 2011 and 2010, respectively.

Future minimum lease rentals payable under non-cancelable operating leases follow:

	2012	2011
Within one year	**P69,633,053**	P70,068,549
After one year but not more than five years	**213,824,443**	235,313,218
After more than five years	**89,789,179**	141,235,091
	P373,246,675	P446,616,858

21. Income and Other Taxes

Under Philippine tax laws, the RBU of the Bank is subject to percentage and other taxes (presented as “Taxes and licenses” in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST). Income taxes include the 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. Taxes and licenses incurred by the Bank amounted to P128.4 million, P131.3 million, and P141.2 million in 2012, 2011 and 2010, respectively.

Republic Act (RA) No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 30.0%. Interest expense allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax.

In addition, current tax regulations provide for the ceiling on the amount of entertainment and representation (EAR) that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. EAR of the Bank amounted to P1.4 million, P1.7 million and P2.7 million (included under “Miscellaneous expenses” in the statement of income) in 2012, 2011 and 2010, respectively (Note 22).

The regulations also provide for MCIT of 2.0% on modified gross income and allow a NOLCO. The Bank’s 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% income tax. The FCDU’s other income, those that are not classified as onshore or offshore under R.A. 9294, is subject to 30.0% RCIT based on net taxable income (or 2.0% MCIT based on gross income, if applicable). In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.5%. RA 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.

Provision for income tax consists of:

	2012	2011	2010
Final	**P60,017,199**	P82,164,314	P65,588,046
MCIT	**25,726,251**	23,259,622	23,404,637
RCIT	**546,377**	3,417,332	4,031,599
	86,289,827	108,841,268	93,024,282
Deferred	**96,569,488**	78,380,196	78,862,052
	P182,859,315	P187,221,464	P171,886,334

Components of the recognized deferred tax assets, net of deferred tax liabilities follow:

	2012	2011
NOLCO	**P85,633,544**	P183,095,024
Allowance for impairment and credit losses	**94,605,428**	95,078,460
Unamortized past service costs	**2,856,067**	2,546,007
Accumulated depreciation of investment properties	**2,743,687**	2,318,178
Unrealized mark-to-market gain or loss on derivatives	**552,954**	(76,500)
Unrealized gain or loss on non-financial asset	**(177,457)**	(177,457)
	P186,214,223	P282,783,712

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

	2012	2011
Excess of MCIT over RCIT	**P72,390,510**	P46,664,259
Accrued rent expense - PAS 17	**-**	3,300,099
	P72,390,510	P49,964,358

Management believes that it is not likely that these temporary differences will be realized in the future.

A reconciliation between the statutory income tax to provision for income tax follows:

	2012	2011	2010
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Tax-paid and tax-exempt income	**(3.49)**	(6.32)	(4.55)
FCDU income	**(4.76)**	(6.79)	(9.42)
Application of NOLCO	**-**	(5.49)	-
Nondeductible interest expense	**2.32**	2.95	2.83
Nondeductible operating expense	**8.02**	16.71	1.68
Others	**4.31**	5.36	9.00
Effective income tax rate	**36.40%**	36.42%	29.54%

The details of the Bank's NOLCO and MCIT follow:

NOLCO:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2010	P92,917,368	P92,917,368	P -	2013
2011	517,399,380	231,974,352	285,425,028	2014
Total	P610,316,748	P324,891,720	P285,425,028	

Excess MCIT over RCIT:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2010	P23,404,637	P -	P23,404,637	2013
2011	23,259,622	-	23,259,622	2014
2012	25,726,251	-	25,726,251	2015
Total	P72,390,510	P -	P72,390,510	

22. Income and Expenses

Service fees and commission income consist of:

	2012	2011	2010
Credit-related	**P129,044,027**	P125,485,068	P112,080,889
Deposit-related	**41,766,965**	36,786,241	32,375,083
Miscellaneous	**32,585,347**	35,250,574	37,094,981
	P203,396,339	P197,521,883	P181,550,953

Miscellaneous income consists of:

	2012	2011	2010
Recovery on charged-off assets	**P66,790,336**	P13,828,449	P113,789
Income from trust division	**12,688,705**	12,612,919	11,479,585
Unrealized gain from nonfinancial assets	**11,578,531**	17,249,531	10,129,577
Income (loss) from assets acquired	**(5,205,504)**	1,355,894	5,071,954
Profit from assets sold/exchanged	**(4,104,752)**	400,471	5,159,274
Dividend income	**2,241,223**	632,800	508,600
Rent income - safety deposit box	**461,459**	583,880	570,500
Other income	**2,620,507**	17,542,184	21,936,336
	P87,070,505	P64,206,128	P54,969,615

Other income consists of long-outstanding unreconciled items and mark-up on auxiliary services.

Miscellaneous expenses for the years ended December 31, 2012, 2011 and 2010 consist of:

	Note	**2012**	2011	2010
Insurance		**P38,412,504**	P42,826,985	P41,503,534
Management and professional fees		**37,048,709**	36,770,545	32,173,315
Litigation		**26,785,703**	13,636,553	11,990,310
Telecommunications		**17,607,462**	17,198,363	18,212,613
Postage and cable		**14,243,208**	10,633,226	9,274,300
Banking and supervision fees		**7,755,451**	8,299,393	7,968,249
Office supplies		**7,643,476**	10,015,580	9,485,568
Advertising		**5,368,016**	5,754,284	6,101,483
Travel and transportation		**5,088,243**	5,148,627	6,340,490
Bank charges		**4,469,896**	7,014,671	4,823,394
Membership dues		**2,225,113**	2,207,545	2,318,517
Freight		**2,115,294**	2,314,976	1,929,590
Entertainment and representation	*21*	**1,369,622**	1,668,265	2,709,289
Fuel and lubricants		**670,164**	553,031	643,646
Other expenses		**27,120,473**	29,704,461	25,240,496
		P197,923,334	P193,746,505	P180,714,794

Other expenses consist of fees paid for periodicals, VISA and check processing.

23. Trust Operations

Securities and other properties held by the Bank in a fiduciary or agency capacity for its customers are not included in the accompanying statement of financial position since these items are not assets of the Bank. As of December 31, 2012 and 2011, total assets held by the Bank's Trust Department amounted to P4.6 billion and P5.1 billion, respectively (Note 25).

In connection with the trust operations of the Bank, government securities with carrying value of P68.4 million and P57.0 million (face value of P67.0 million and P57.0 million) as of December 31, 2012 and 2011 are deposited with the BSP in compliance with existing banking regulations relative to the trust functions of the Bank.

In compliance with existing BSP regulations, 10.0% of the Bank's income from trust business is appropriated to retained earnings. This yearly appropriation is required until the retained earnings for trust functions equals 20.0% of the Bank's regulatory net worth. No part of such retained earnings shall at any time be paid out as dividends, but losses accruing in the course of business may be charged against such surplus. As of December 31, 2012 and 2011, the reserve for trust functions amounted to P5.0 million.

24. Operating Segment Information

The Bank is organized based on the products and services that it offers and operates three principal areas namely: Treasury, Institutional Banking and Retail Banking.

Treasury - principally provides money market, trading and treasury services, as well as the management of the Bank's funding operations by use of government securities and placements and acceptances with other banks.

Institutional banking - principally handles loans, trade finance and other credit facilities and deposit and current accounts for institutional customers.

Retail Banking - addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages and personal loans.

Others - principally handling supportive roles which are performed by Operations, Finance and Corporate Affairs Group, Credit Risk Management and Credit Cycle Group and other divisions under the direct stewardship of the Office of the President.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Bank has no significant customers which contributes 10.0% or more of the total revenue, net of interest expense.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

The following table presents revenue and income information of operating segments presented in accordance with PFRSs as of and for the years ended December 31, 2012, 2011 and 2010 (amounts in thousand pesos):

	2012				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	**P146,561**	**P286,376**	**P1,063,397**	**P -**	**P1,496,334**
Intersegment	**131,373**	**(67,509)**	**(63,690)**	**(174)**	**-**
	277,934	**218,867**	**999,707**	**(174)**	**1,496,334**
Non-interest income	**269,076**	**99,711**	**181,084**	**19,217**	**569,088**
Revenue - net of interest expense	**547,010**	**318,578**	**1,180,791**	**19,043**	**2,065,422**
Non-interest expenses	**131,152**	**194,161**	**680,707**	**557,106**	**1,563,126**
Income (loss) before provision for income tax	**415,858**	**124,417**	**500,084**	**(538,063)**	**502,296**
Provision for income tax	**76,134**	**52,960**	**53,675**	**90**	**182,859**
Net income (loss)	**P339,724**	**P71,457**	**P446,409**	**(P538,153)**	**P319,437**
Depreciation and amortization	**P1,554**	**P4,392**	**P32,868**	**P42,561**	**P81,375**
Software amortization	**P8,720**	**P226**	**P6,528**	**P18,407**	**P33,881**
Provision for impairment and credit losses	**P -**	**P33,551**	**P146,792**	**P11,727**	**P192,070**

	2011				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	P175,377	P287,202	P1,048,010	P -	P1,510,589
Intersegment	182,897	(86,370)	(96,405)	(122)	-
	358,274	200,832	951,605	(122)	1,510,589
Non-interest income	296,912	82,618	165,801	8,413	553,744
Revenue - net of interest expense	655,186	283,450	1,117,406	8,291	2,064,333
Non-interest expenses	146,594	150,878	759,851	492,979	1,550,302
Income (loss) before provision for income tax	508,592	132,572	357,555	(484,688)	514,031
Provision for income tax	34,461	(37,254)	189,878	136	187,221
Net income (loss)	P474,131	P169,826	P167,677	(P484,824)	P326,810
Depreciation and amortization	P1,596	P4,092	P44,064	P38,827	P88,579
Software amortization	P7,753	P133	P6,985	P12,546	P27,417
Provision for credit losses	(P52)	P6,429	P199,404	P -	P205,781

	2010				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	P163,622	P340,968	P1,051,381	P20	P1,555,991
Intersegment	136,818	(122,430)	(14,291)	(97)	-
	300,440	218,538	1,037,090	(77)	1,555,991
Non-interest income	297,485	85,922	141,327	8,386	533,120
Revenue - net of interest expense	597,925	304,460	1,178,417	8,309	2,089,111
Non-interest expenses	112,947	169,690	736,738	487,871	1,507,246
Income (loss) before provision for income tax	484,978	134,770	441,679	(479,562)	581,865
Provision for income tax	39,230	13,697	118,181	778	171,886
Net income (loss)	P445,748	P121,073	P323,498	(P480,340)	P409,979
Depreciation and amortization	P1,395	P6,012	P34,059	P29,575	P71,041
Software amortization	P3,833	P4	P5,421	P10,227	P19,485
Provision for credit losses	P382	P27,075	P259,497	P -	P286,954

Segment information for the statement of financial position are as follows (amounts in thousand pesos):

	Treasury		Institutional Banking		Retail Banking		Others		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Segment assets	**P5,855,571**	P8,428,951	**P7,103,061**	P8,545,977	**P8,158,885**	P8,080,910	**P463,883**	P692,853	**P21,581,400**	P25,748,691
Segment liabilities	**P1,956,514**	P1,114,341	**P4,989,770**	P9,981,603	**P7,834,390**	P8,168,990	**P369,079**	P371,964	**P15,149,753**	P19,636,898
Capital expenditures	**P25**	P457	**P1,780**	P1,135	**P13,848**	P53,059	**P29,340**	P87,444	**P44,993**	P142,095

The Bank does not have geographical information to disclose since all operations are within the Philippines.

25. Commitments and Contingent Assets and Liabilities

In the normal course of business, the Bank enters into various commitments and incurs contingent liabilities that are not presented in the accompanying financial statements. The Bank does not anticipate any material losses as a result of these commitments and contingent liabilities.

For regulatory reporting purposes, the following is a summary of the commitments and contingent liabilities at their equivalent peso contractual amounts (amounts in thousands):

	Note	**2012**	2011
Trust department accounts	*23*	**P4,560,001**	P5,057,901
Credit commitments		**5,831,317**	3,682,350
Unused commercial letters of credit		**172,357**	303,474
Outward bills for collection		**-**	63,278
Inward bills for collection		**3,168**	-
Others		**6,241**	2,537

In the Decision of the Court of Tax Appeals (CTA) dated April 17, 2012 on the Bank's DST-FCDU Tax Assessment Case for the years 1998, 1999, 2000 and 2002, the CTA granted the Bank's Petition for Review and ordered the cancellation of the deficiency DST assessments against the Bank for the years 1998, 1999, 2000 and 2002. The BIR filed a Motion for Reconsideration with the CTA, however, said motion was denied by the CTA due to lack of merit.

On September 14, 2012, the CTA issued a resolution confirming that the decision made by the Court last April 17, 2012 has become final and executory. Accordingly, the DST-FCDU Tax Assessment Case for the years 1998, 1999, 2000 and 2002 is now closed.

26. 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. The Bank treats other subsidiaries and branch offices of the Parent Bank as related parties (referred to below as affiliates). 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 loans transactions with investees and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70% 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 respective total regulatory capital or 15% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts.

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

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, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10% of bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The following table shows information relating to the loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular but are allowed a transition period of two years from the effectivity of said circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes late.

	2012	2011
Total outstanding non-DOSRI accounts granted prior to BSP Circular No. 423	**P -**	P -
Percent of unsecured non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	**-**	-
Percent of past due non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	**-**	-
Percent of nonaccruing non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	**-**	-

The significant account balances with respect to related parties included in the financial statements (after appropriate eliminations have been made) follow:

			Outstanding Balance			
Category/ Transaction	**Year**	**Amount of the Transaction**	**Due from Related Parties**	**Due to Related Parties**	**Terms**	**Conditions**
Parent						
Current Deposits						
Deposits	**2012**	**P781,957,613**	**P49,571,502**	**P -**	**Demandable;**	**Unsecured;**
Withdrawals		**(876,266,734)**	**-**	**-**	**Non-interest bearing**	**no impairment**
Deposits	2011	1,245,925,548	149,151,254	-	Demandable;	Unsecured;
Withdrawals		(1,111,073,435)			Non-interest bearing	no impairment
Deposits	2010	1,461,900,435	12,344,960	-	Demandable;	Unsecured;
Withdrawals		(1,465,084,363)	-	-	Non-interest bearing	no impairment
Bills Payable						
Availments	**2012**	**48,464,650,000**	**-**	**1,929,350,000**	**1-7days;**	**Unsecured;**
Settlements		**(47,192,900,000)**	**-**	**-**	**interest bearing**	**no impairment**
Availments	2011	19,324,692,500	-	657,600,000	1-7days;	Unsecured;
Settlements		(19,239,807,500)	-	-	interest bearing	no impairment
Availments	2010	17,855,505,000	-	569,920,000	1-7days;	Unsecured;
Settlements		(17,686,255,000)	-	-	interest bearing	no impairment
Interest Expense on Bills Payable	**2012**	**5,088,406**	**-**	**5,088,406**	**Demandable; interest bearing**	**Unsecured; no impairment**
	2011	4,133,063	-	4,133,063	Demandable; interest bearing	Unsecured; no impairment
	2010	1,837,967	-	1,837,967	Demandable; interest bearing	Unsecured; no impairment

(Forward)

			Outstanding Balance			
Category/ Transaction	**Year**	**Amount of the Transaction**	**Due from Related Parties**	**Due to Related Parties**	**Terms**	**Conditions**
Entities under Common Control						
Current Deposits to Chinatrust - New York						
Deposits	**2012**	**P46,831,721,870**	**P26,580,996**	**P -**	**Demandable;**	**Unsecured;**
Withdrawals		**(46,822,773,853)**	**-**	**-**	**non-interest bearing**	**no impairment**
Deposits	2011	301,823,527	21,053,948	-	Demandable;	Unsecured;
Withdrawals		(305,168,288)	-	-	non-interest bearing	no impairment
Deposits	2010	266,305,260	39,745,834	-	Demandable;	Unsecured;
Withdrawals		(283,473,750)	-	-	non-interest bearing	no impairment
Current Deposits to Chinatrust - USA						
Deposits	**2012**	**20,719,276**	**-**	**-**	**Demandable;**	**Unsecured;**
Withdrawals		**(25,064,438)**	**-**	**-**	**non-interest bearing**	**no impairment**
Deposits	2011	7,201,534	4,465,866	-	Demandable;	Unsecured;
Withdrawals		(18,605,550)	-	-	non-interest bearing	no impairment
Deposits	2010	45,465,545	-	-	Demandable;	Unsecured;
Withdrawals		(32,309,000)	-	-	non-interest bearing	no impairment
Current Deposits to Chinatrust - Hongkong						
Deposits	**2012**	**6,289,911**	**1,752,153**	**-**	**Demandable;**	**Unsecured;**
Withdrawals		**(14,717,444)**	**-**	**-**	**non-interest bearing**	**no impairment**
Deposits	2011	30,269,464	10,400,065	-	Demandable;	Unsecured;
Withdrawals		(26,009,624)	-	-	non-interest bearing	no impairment
Deposits	2010	121,216,370	5,954,703	-	Demandable;	Unsecured;
Withdrawals		(114,780,149)	-	-	non-interest bearing	no impairment
Current Deposits to Chinatrust- Tokyo						
Deposits	**2012**	**-**	**-**	**-**	**Demandable;**	**Unsecured;**
Withdrawals		**(1,523,785)**	**-**	**-**	**non-interest bearing**	**no impairment**
Deposits	2011	-	953,723	-	Demandable;	Unsecured;
Withdrawals		-	-	-	non-interest bearing	no impairment
Deposits	2010	-	998,614	-	Demandable;	Unsecured;
Withdrawals		(4,326,597)	-	-	non-interest bearing	no impairment
Key Management Personnel						
Loans and Receivables						
Additions	**2012**	**14,731,600**	**23,630,620**	**-**	**1-5 years;**	**Secured and unsecured;**
Collections		**(16,640,816)**	**-**	**-**	**interest bearing**	**with impairment**
Additions	2011	17,721,075	22,001,558	-	1-5 years;	Secured and unsecured;
Collections		(12,888,455)	-	-	interest bearing	with impairment
Additions	2010	23,184,539	17,168,938	-	1-5 years;	Secured and unsecured;
Collections		(23,932,359)	-	-	interest bearing	with impairment
Interest Income on Loans and Receivables	**2012**	**2,060,212**	**2,060,212**	**-**	**Demandable; interest bearing**	**Unsecured; no impairment**
	2011	1,634,546	1,634,546	-	Demandable; interest bearing	Unsecured; no impairment
	2010	1,710,962	1,710,962	-	Demandable; interest bearing	Unsecured; no impairment

(Forward)

Category/ Transaction	Year	Amount of the Transaction	Outstanding Balance: Due from Related Parties	Outstanding Balance: Due to Related Parties	Terms	Conditions
Other Related Parties						
Employees' retirement fund held by Trust Operations						
Deposit Liabilities						
Deposits	**2012**	**P555,438,222**	**P -**	**P3,391,647**	**1-3years,**	**Secured,**
Withdrawals		**(551,006,065)**	**-**	**-**	**interest bearing**	**no impairment**
Deposits	2011	551,194,565	-	578,985	1-3years,	Secured,
Withdrawals		(537,672,882)	-	-	interest bearing	no impairment
Deposits	2010	384,758,195	-	7,549,352	1-3years,	Secured,
Withdrawals		(365,777,550)	-	-	interest bearing	no impairment
Interest Expense on Deposit Liabilities	**2012**	**17,559**	**-**	**17,559**	**Demandable; interest bearing**	**Unsecured; no impairment**
	2011	81,298	-	81,298	Demandable; interest bearing	Unsecured; no impairment
	2010	864,608	-	864,608	Demandable; interest bearing	Unsecured; no impairment
TOTAL	**2012**	**P1,181,781,534**	**P103,595,483**	**P1,937,847,612**		
TOTAL	2011	P233,451,386	P209,660,960	P662,393,346		
TOTAL	2010	P186,810,113	P77,924,011	P580,171,927		

In 2012, 2011 and 2010, the Bank recognized provision for credit losses from the loans and receivables from key management personnel amounting to P22,435, P126,144 and P117,355 respectively.

The remuneration of directors and other members of key management personnel follows:

	2012	2011	2010
Short-term benefits	**P50,375,569**	P53,721,221	P33,794,220
Post-employment benefits	**-**	-	2,569,325
Other long-term benefits	**1,333,892**	443,435	150,781
	P51,709,461	P54,164,656	P36,514,326

In accordance with the Bank's by laws, profit share of officers and employees is computed at 10.0% of net income after tax.

On December 20, 2012, the SEC issued Circular No. 12-2012 which provides the guidelines on the disclosure of transactions of reporting entities with a retirement fund of their employees, in accordance with SRC Rule 68 and PAS 24, Related Party Transactions.

In accordance with the aforementioned Circular, the Bank discloses the following:

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

- The Bank's Trust Operations Department currently maintains and manages the Bank's retirement plan assets under a Trust and Other Fiduciary Account set-up. For 2012 and 2011, fees earned by the Trust Operations Department from the Bank's retirement plan assets amounted to P255,701 and P211,772, respectively;

- The Employee Retirement Fund Committee, composed of the Bank's Treasurer as chairman and various senior officers as members, sets the investment policies and other major decisions relating to the Bank's retirement plan assets;

- As of December 31, 2012 and 2011, the carrying values of the Bank's retirement plan assets, which approximate its fair value, are P107.6 million and P86.5 million, respectively. As of December 31, 2012 and 2011, the carrying values of the Bank's retirement plan liabilities, which approximate its fair value, are P88.1 million and P140.3 million, respectively;

- The Bank's retirement plan assets are invested in various debt and equity instruments, such as government securities, corporate papers, stocks traded in the Philippine Stock Exchange, as well as investments in BSP's special deposit account and placements with the Bank. The Bank's retirement plan assets do not have investments in real properties;

- As of December 31, 2012 and 2011, the Bank's retirement plan assets have outstanding deposit liabilities with the Bank, in the nature of time deposits, amounting to P3.4 million and P0.6 million, respectively. Interest expense incurred by the Bank from these deposits for 2012 and 2011 amounted to P.02 million and P0.1 million, respectively.

- In 2012, deposits and withdrawals with the Bank by the Bank's retirement plan assets amounted to P555.4 million and P551.0 million, respectively;

- In 2011, deposits and withdrawals with the Bank by the Bank's retirement plan assets amounted to P551.2 million and P537.7 million, respectively; and

- Other than deposit liabilities with the Bank, the Bank's retirement plan assets do not have investments in securities, whether debt or equity, issued by the Bank as of December 31, 2012 and 2011.

27. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2012 and 2011 and are not indicative of either market risk or credit risk (amounts in thousands).

	2012		
	Assets	**Liabilities**	**Notional Amount**
Freestanding Derivatives			
Currency forwards and swaps			
BUY:			
USD/PHP	**P690**	**P1,324**	**USD26,600**
CHF/EUR	**42**	**-**	**EUR1,210**
EUR/CHF	**-**	**113**	**EUR1,000**
JPY/USD	**-**	**1,636**	**JPY126,073**
USD/EUR	**-**	**71**	**USD396**
USD/JPY	**2,064**	**-**	**USD2,200**
Freestanding Derivatives			
SELL:			
USD/PHP	**-**	**570**	**USD 1,000**
	P2,796	**P3,714**	

	2011		
	Assets	Liabilities	Notional Amount
Freestanding Derivatives			
Currency forwards and swaps			
BUY:			
USD/EUR	P637	P -	USD1,308
USD/JPY	-	26	USD500
	P637	P26	

The Bank entered into currency forwards and swap contracts to manage its foreign exchange risks. Currency forwards are contractual agreements to buy or sell a specified currency at a specific price and date in the future.

The net movements in fair value changes of all derivative instruments follow (in thousands):

	2012	2011
Net derivative asset at beginning of year	**P611**	P4,507
Net changes in fair value of derivatives	**(1,678)**	(4,166)
Fair value of settled contracts	**149**	270
Net derivative asset (liabilities) at end of year	**(P918)**	P611

28. Financial Performance

EPS amounts attributed to equity holdings of the Bank were computed as follows:

	2012	2011	2010
a. Net income	**P319,437,125**	P326,809,758	P409,977,974
b. Weighted average number of outstanding common shares[1]	**247,564,631**	247,968,731	247,968,731
c. Basic/Diluted EPS (a/b)	**P1.29**	P1.32	P1.65

[1]- The Bank acquired 484,920 shares of its common stock in February 2012 as part of its delisting and share buyback program. Cost of acquisition is recorded as 'Treasury Stock'

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

	2012	2011	2010
a.) Net income	**P319,437,125**	P326,809,758	P409,977,974
b.) Average total equity	**6,280,251,218**	5,967,551,074	5,620,490,540
Return on average equity (a/b)	**5.1%**	5.5%	7.3%
c.) Net income	**P319,437,125**	P326,809,758	P409,977,974
d.) Average total assets	**21,550,268,929**	23,217,521,600	24,968,141,364
Return on average assets (c/d)	**1.5%**	1.4%	1.6%
e.) Net interest income	**P1,496,333,509**	P1,510,575,512	P1,555,977,158
f.) Average interest earning assets	**19,020,105,081**	20,424,209,020	22,032,164,137
Net interest margin on average earning assets (e/f)	**7.9%**	7.4%	7.1%

Note: Average balances were determined as the average of the month-end balances of the respective statement of financial position accounts for the year.

29. Reclassifications

Certain accounts in the December 31, 2011 and 2010 financial statements were reclassified to conform with the presentation in the December 31, 2012 financial statements. These relate to the following:

a. Recognition of interbank loans receivable from BSP as "Due from Bangko Sentral ng Pilipinas" instead of "Interbank Loans Receivable" account; and

b. Initial recognition of gain on foreclosure of properties as a reduction in Provision for credit losses and Allowance for impairment and credit losses.

The following are the effects of the reclassification to the previously reported balances:

Reconciliation of Statement of Financial Position

	December 31, 2011		
	As Previously Reported	Effect of Reclassification	As Reclassified
Due from Bangko Sentral ng Pilipinas [a]	P4,543,242,125	(P2,630,000,000)	P1,913,242,125
Interbank loans receivable [a]	91,935,658	2,630,000,000	2,721,935,658

Reconciliation of Statement of Income

	December 31, 2011		
	As Previously Reported	Effect of Reclassification	As Reclassified
Provision for credit losses [b]	P205,781,739	P16,658,008	P222,439,747
Miscellaneous income - net [b]	(47,548,120)	(16,658,008)	(64,206,128)
Net Income	P158,233,619	P -	P158,233,619

	December 31, 2010		
	As Previously Reported	Effect of Reclassification	As Reclassified
Provision for credit losses [b]	P286,954,125	P10,129,577	P297,083,702
Miscellaneous income - net [b]	(44,840,038)	(10,129,577)	(54,969,615)
Net Income	P242,114,087	P -	P242,114,087

30. Supplementary Information Required Under Revenue Regulations 19-2011

	Regular Rate
Losses	P195,797,849
Salaries and allowances	151,064,450
Taxes and licenses	93,908,987
Rental	88,726,845
Depreciation	70,689,595
Commission	66,953,193
Communication, light and water	47,341,307
Repairs and maintenance	47,006,509
Amortization of intangibles	30,288,471
Other outside services	18,727,626
Security services	17,278,923
Janitorial and messengerial services	12,696,943
Insurance	9,993,714
Office supplies	6,469,248
Advertising	4,748,412
Transportation and travel	4,400,654
Directors fees	4,108,209
SSS, GSIS, Philhealth, HDMF and other contributions	3,906,364
Professional fees	3,527,357
Management and consultancy fee	1,243,621
Representation and entertainment	1,173,791
Fuel and oil	511,735
Miscellaneous	80,857,018
Total expenses	961,420,821
Allowance of NOLCO	610,316,748
Total	P1,571,737,569

31. Supplementary Information Required Under Revenue Regulations 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) No. 15-2010 for the amendments in certain provisions of RR No. 21-2002, as *Amended, Implementing Section 6(H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying the Tax Returns*.

In compliance with the above RR, the Bank presents information on taxes, duties and license fees paid or accrued during the taxable years.

The details of taxes and licenses account in 2012 follow:

Gross receipt tax	P108,794,707
Documentary stamp tax	16,817,359
Business licenses	2,409,014
Company car registration	197,825
Real property tax	183,979
Business taxes	18,580
Community tax certificate	10,500
Annual registration fee	5,650
	P128,437,614

The NIRC of 1997 provides for the imposition of GRT on gross receipts derived by banks from sources within the Philippines. Accordingly, the Bank's gross receipts are subject to GRT as reimposed in RA No. 9238 beginning January 1, 2004.

Details of the GRT remitted in 2012 follow:

	Tax Base	Total Remittances	Balance
Income subject to 5%	P1,298,954,846	P59,398,059	P5,549,683
Income subject to 1%	87,622,580	801,031	75,195
Other income subject to 7%	637,181,956	35,243,995	9,358,742
	P2,023,759,382	P95,443,085	P14,983,620

The difference in the recorded expense for GRT and the total remittances and balance amounting to P1.6 million and P2.6 million in 2012 and 2011, respectively, is attributed to pre-termination of loans in which the adjustment to GRT is shouldered by the customer.

Documentary Stamp Tax
Details of documentary stamp tax as of December 31, 2012 follow:

	Balance
Documentary stamps on hand, December 31, 2011	P3,448,881
Purchases (BIR Form 2000)	60,000,000
Documentary stamps used	(60,677,165)
Documentary stamps on hand, December 31, 2012	P2,771,716

Withholding Taxes
Details of total remittances of withholding taxes as of December 31, 2012 follow:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	P114,941,519	P15,610,288
Final withholding tax on interest on deposits	16,419,215	3,433,147
Expanded withholding taxes	18,506,534	1,949,508
	P149,867,268	P20,992,943

Outstanding amount of withholding taxes are included in "Other liabilities" account in the statement of financial position.

In the Decision of the Court of Tax Appeals (CTA) dated April 17, 2012 on the Bank's DST-FCDU Tax Assessment Case for the years 1998, 1999, 2000 and 2002, the CTA granted the Bank's Petition for Review and ordered the cancellation of the deficiency DST assessments against the Bank for the years 1998, 1999, 2000 and 2002. The BIR filed a Motion for Reconsideration with the CTA, however, said motion was denied by the CTA due to lack of merit.

On September 14, 2012, the CTA issued a resolution confirming that the decision made by the Court last April 17, 2012 has become final and executory. Accordingly, the DST-FCDU Tax Assessment Case for the years 1998, 1999, 2000 and 2002 is now closed.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

SCHEDULE OF ALL PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRSS) [WHICH CONSIST OF PFRSS, PHILIPPINE ACCOUNTING STANDARDS (PASS) AND PHILIPPINE INTERPRETATIONS] EFFECTIVE AS OF DECEMBER 31, 2012

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2012**		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓

(Continued)

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
PFRS 10	Consolidated Financial Statements			✓
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
PFRS 13	Fair Value Measurement		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Balance Sheet Date	✓		
PAS 11	Construction Contracts			✓

(Continued)

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Amended)	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		

(Continued)

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement*	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	*Scope of PFRS 2*			✓

(Continued)

** - Please see Note 7 of the financial statements*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION DECEMBER 31, 2012

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning[1]		P -
Net income during the year closed to retained earnings	P319,437,125	
Less: Non-actual/ unrealized income net of tax		
Equity in net income of associate/ joint venture	-	
Unrealized foreign exchange gain-net (except those attributable to cash and cash equivalents)	(2,336,418)	
Unrealized actuarial gain	-	
Fair value adjustment (marking to market gains)	(614,533)	
Provision for deferred tax asset	(96,569,489)	
Fair value adjustment of Investment Property/AR-ICCS resulting in gain	31,782,419	
Adjustment due to deviation from PFRSs/GAAP - gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRSs	5,734,446	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRSs/GAAP - loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Net income actually earned during the year		381,440,700
Add/Less:		
Dividend declaration during the period	-	
Appropriations of Retained Earnings during the period		
Trust operations	-	
Treasury shares[1, 2]	(30,240)	
BASEL III requirements and ICAAP[1]	(381,410,460)	
Reversal of appropriations	-	
Effects of prior period adjustments	-	(381,440,700)
Total retained earnings, available for dividend declaration[1], ending		P -

[1] - At the regular meeting of the BOD held on February 23, 2012, the BOD approved the restriction of the full amount of retained earnings for the following purposes:

i.) to comply with the requirements of the ICAAP pursuant to BSP Circular 639 which took effect on January 1, 2010.

ii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise. And

iii.) to provide for buffer in preparation for BASEL III requirements.

[2] - Amount includes transaction cost.

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2012

Liquidity Ratio

The ratio for the year 2012 and 2011 were as follows:

	2012	2011
Net liquid assets	**P5,179,319,352**	P9,266,604,190
Total deposits	**12,000,063,215**	17,280,639,049
Ratio of net liquid assets to total deposits	**43%**	54%

Net liquid assets consist of cash, due from banks, interbank loans, securities held for trade and available for sale less interbank borrowings.

Debt to Equity Ratio

The ratio for the year 2012 and 2011 were as follows:

	2012	2011
Total liabilities	**P15,135,021,854**	P19,636,897,634
Total equity	**6,431,647,362**	6,111,793,524
Ratio of debt to equity	**235%**	321%

Assets-to-Equity Ratio

The ratio for the year 2012 and 2011 were as follows:

	2012	2011
Total assets	**P21,566,669,216**	P25,748,691,158
Total equity	**6,431,647,362**	6,111,793,524
Ratio of total assets to equity	**335%**	421%

Interest Rate Coverage Ratio

The ratios for the year 2012 and 2011 were as follows:

	2012	2011
Income before income tax	**P502,296,440**	P514,031,222
Interest expense	**156,063,178**	230,820,732
Interest coverage ratio	**322%**	223%

Profitability Ratios

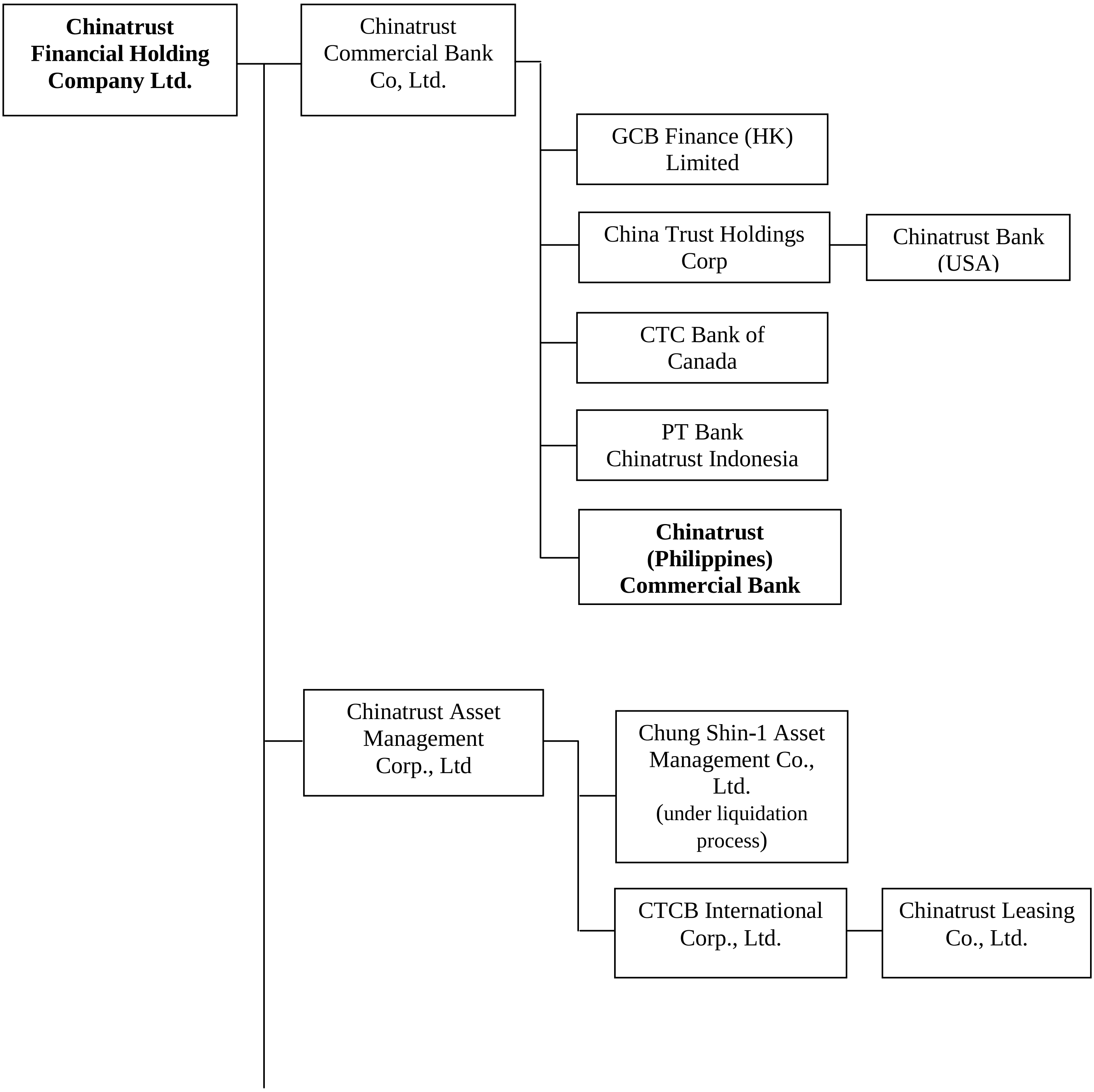
The ratios for the year 2012 and 2011 were as follows:

	2012	2011
a.) Net income	**P319,437,125**	P326,809,758
b.) Average total equity	**6,280,251,218**	5,967,551,074
Return on average equity (a/b)	**5.1%**	5.5%
c.) Net income	**P319,437,125**	P326,809,758
d.) Average total assets	**21,550,268,929**	23,217,521,600
Return on average assets (c/d)	**1.5%**	1.4%
e.) Net interest income	**P1,496,333,509**	P1,510,575,512
f.) Average interest earning assets	**19,020,105,081**	20,424,209,020
Net interest margin on average earning assets (e/f)	**7.9%**	7.4%

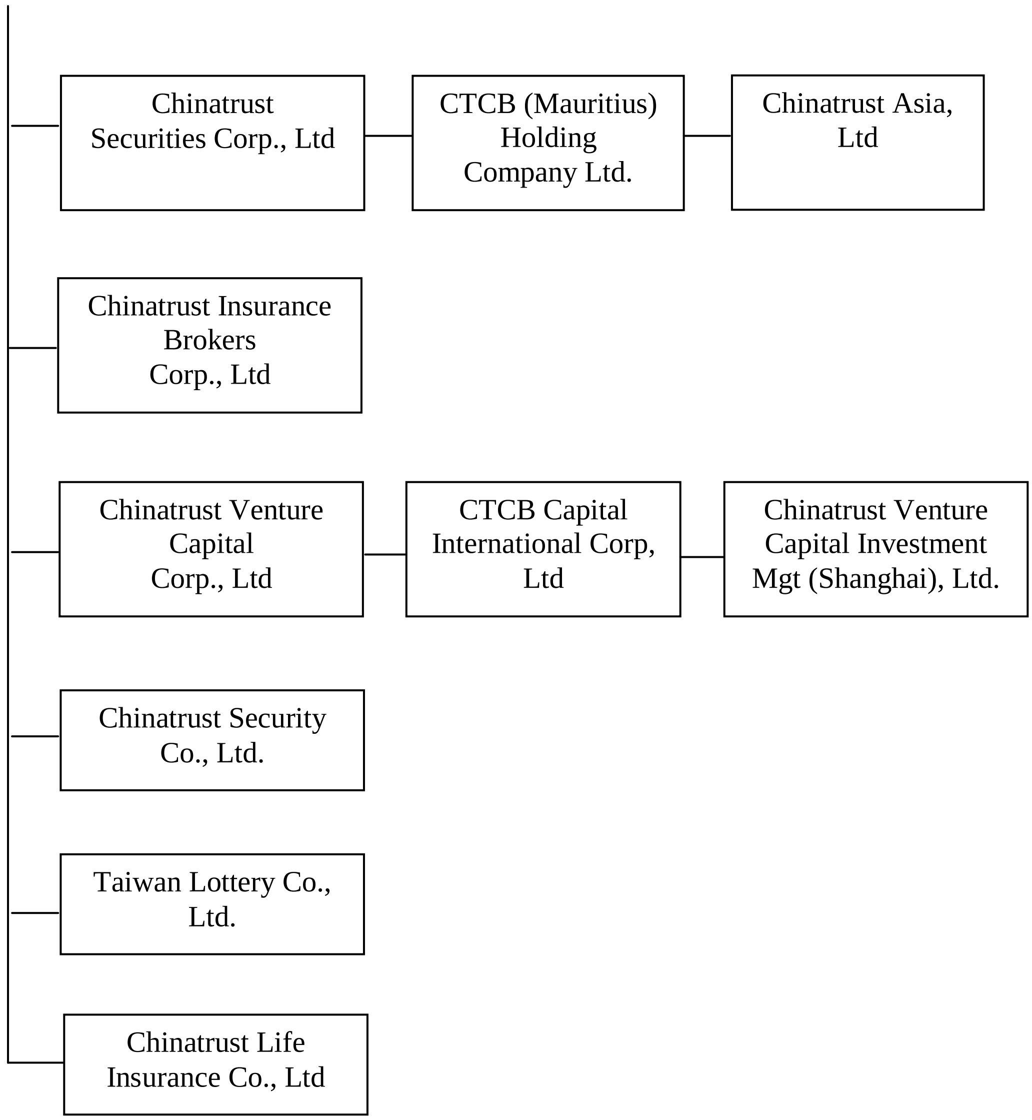
CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

RELATIONSHIP MAP
DECEMBER 31, 2012

Below is a map showing the relationship between and among the Group and its ultimate parent company, subsidiaries, and associates as of December 31, 2012:



(Forward)


Chinatrust Securities Corp., Ltd
CTCB (Mauritius) Holding Company Ltd.
Chinatrust Asia, Ltd
Chinatrust Insurance Brokers Corp., Ltd
Chinatrust Venture Capital Corp., Ltd
CTCB Capital International Corp, Ltd
Chinatrust Venture Capital Investment Mgt (Shanghai), Ltd.
Chinatrust Security Co., Ltd.
Taiwan Lottery Co., Ltd.
Chinatrust Life Insurance Co., Ltd

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City

SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED BY ANNEX 68-E DECEMBER 31, 2012

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II,” respectively. It also prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by SRC Rule 68 and 68.1 as amended that are relevant to the Bank. This information is presented for purposes of filing with the SEC and is not required part of the basic financial statements.

Financial Assets

Below is the detailed schedule of financial assets in equity and debt securities of the Bank as of December 31, 2012:

Name of Issuing entity and association of each issue	Number of Shares	Amount Shown in the Statement of Financial Position	Value Based on Market Quotation at end of year	Interest Income
Financial assets at FVPL				
Quoted debt securities:				
Philippine Government (PHP)	n/a	P77,027,529	P77,027,529	P69,853,735
Philippine Government (USD)	n/a	556,159,084	556,159,084	19,720,268
Total		633,186,613	633,186,613	89,574,003
Derivative assets	n/a	2,795,889	2,795,889	-
		P635,982,502	P635,982,502	P89,574,003
AFS investments				
Quoted debt securities:				
DBP (USD)	n/a	P156,898,272	P156,898,272	P5,160,458
PSALM (USD)	n/a	172,256,063	172,256,063	6,057,512
Philippine Government (PHP)	n/a	213,414,298	213,414,298	3,706,223
Philippine Government (USD)	n/a	784,670,750	784,670,750	20,894,847
Total		1,327,239,383	1,327,239,383	35,819,040
Unquoted equity securities:				
BANCNET	50,000	6,940,717	n/a	-
PCHC	21,000	5,000,100	n/a	-
BAP	5,000	500,000	n/a	-
PLDT	14,350	143,500	n/a	-
Total		12,584,317		
Club shares accounted as AFS equity investments:				
Orchard Gold and Country Club	1	224,000	224,000	-
Subic Bay Yacht Club Corporation	1	176,000	176,000	-
Total		400,000	400,000	-
		P1,340,223,700	P1,327,639,383	P35,819,040
HTM investments				
Quoted debt securities:				
Philippine Government (PHP)	n/a	P133,977,324	P136,440,975	P4,316,274
Philippine Government (USD)	n/a	198,719,087	214,281,000	7,561,077
Total	n/a	P332,696,411	P350,721,975	P11,877,351

ANNEXES

(Additional Disclosures not included in the SEC 2012 Annual Report)

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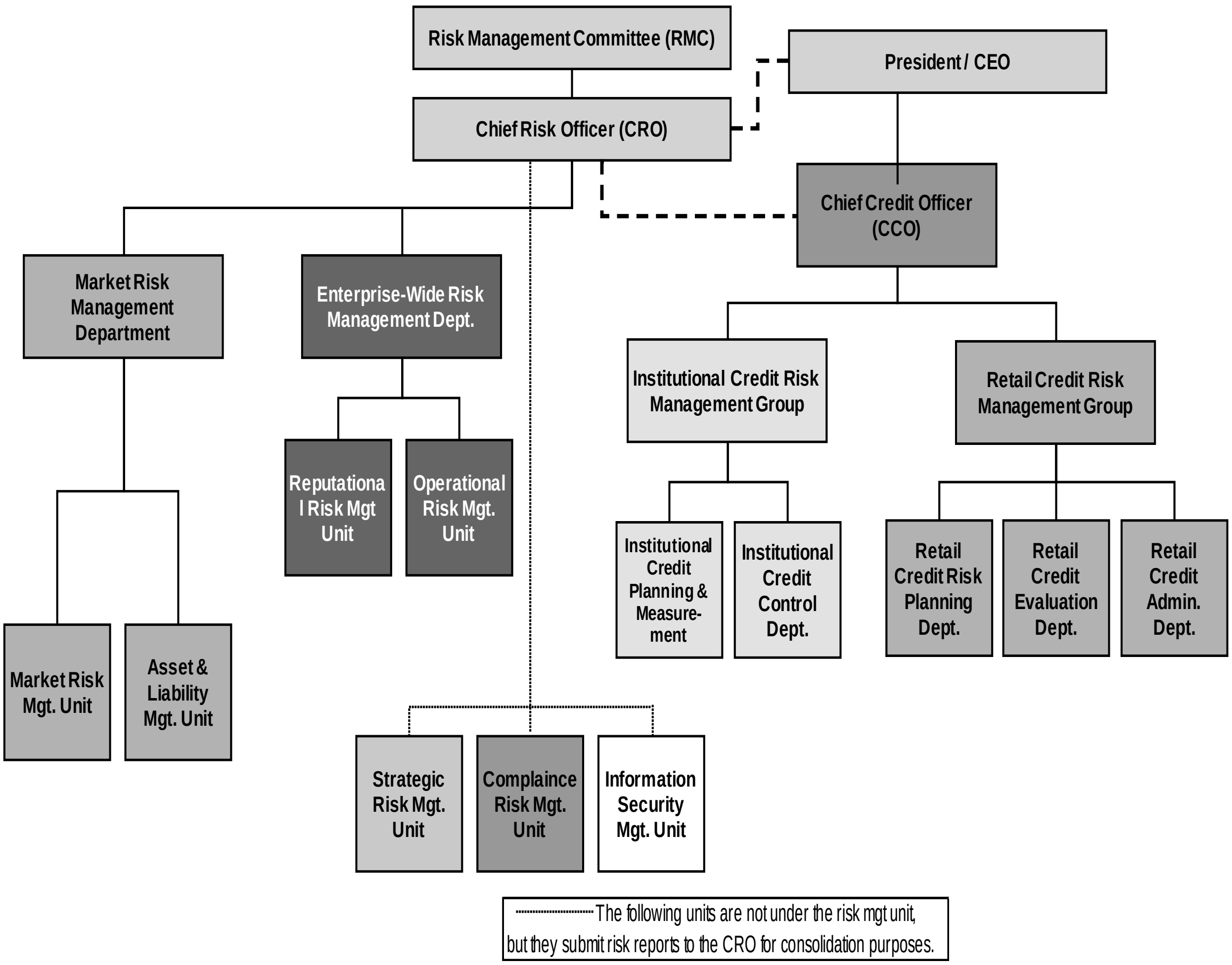
RISK MANAGEMENT COMMITTEE (RMC)



The Board organized the Risk Management Committee to ensure that the Bank is able to manage its risks taking activities so that it can position itself for better opportunities.

The Risk Management Committee is responsible for the development and oversight of the Bank's Risk Management Program. It provides the general direction and defines the risk philosophy of the Bank.

The RMC oversees the system of limits on discretionary authority that the Board delegates to management, who will ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

The Committee shall review and approve Chinatrust Philippines Commercial Bank's Internal Capital Adequacy Assessment Process. This also includes the review of the bank's Risk

Capital Framework (credit, market, liquidity and operational risks), including significant inputs and assumptions.

The Committee shall be composed of at least three (3) members of the Board of Directors including at least one (1) independent director, and a chairperson who is a non-executive member. The members shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.. The Committee members shall be designated by an affirmative vote of at least a majority of the Board of Directors. The members of the Committee and the Committee Chair shall be appointed by, and may be removed by, the Board.

The core responsibilities of the Risk Management Committee are:

- ***Identify and evaluate risk exposures* –** The Committee shall assess the probability of each reported risk becoming reality including the reported estimate of possible effect and cost. Priority areas of concern are those risks that are most likely to occur and with high adverse impact to the bank when they happen.

- ***Develop risk management strategies* –** The Risk Management Committee shall approve a written plan defining the strategies for managing and controlling the major risks. It shall approve recommended practical strategies to mitigate the risks, avoid and minimize losses if the risk becomes real.

- ***Review and revise the plan as needed* –** The Committee shall evaluate the risk management plan to ensure its continued relevancy, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The Committee shall report regularly to the Board of Directors the entity's over-all risk exposure, actions taken to mitigate the risks, and recommend further action or plans as necessary.

- ***Review and update the Risk Management Charter periodically.***

Chief Risk Officer (CRO)

Detailed functions & responsibilities of the CRO are as follows:

- To evaluate annually the Bank's internal control and assurance framework to satisfy itself on the design and completeness of the framework relative to the Bank's activities and risk profile.
- To consider and recommend to the Board for approval, through the RMC, the Bank's Risk Tolerance and in particular:

- To recommend to the Board on an annual basis the Bank's Risk Tolerance, including Risk Type Limits for Institutional Credit Risk, Retail Credit Risk, Liquidity Risk and Market Risk for the following year.
- To receive reports of any change less than 10% to the approved Risk Type Limits within the Bank's Risk Tolerance at each meeting of the Committee.
- To consider any breaches of the Bank's Risk Tolerance and each of the approved Risk Type Limits and to recommend whether the Board should approve the reduction plan and/or ratify the excess request.
- In recommending to the Board the Bank's overall risk tolerance, the CRO will ensure that it has taken into account the current and prospective macro economic and financial environment, drawing on financial stability assessments such as those published by the PDIC, the BSP, the SEC and other authoritative sources that may be relevant.
- To receive, on an annual basis, a report on the Bank's Business Strategy/Budget and relative Risk Limits, including an explanation of how such limits are set, and, periodically, to receive and consider reports:
- Of trends in exposures or concentrations against the Bank's Business Strategy/Budget and related Risk Limits.
- Of any material change to the Bank's Business Strategy/Budget and related Risk Limits, where 'material' is defined as a change above a threshold determined by the Chief Risk Officer for each Business Strategy/Budget and relative Risk factor (such thresholds being in the range of 10-20% for any Business Strategy/Budget and relative Risk factor).
- To consider target capital levels and monitor performance against it, including the potential impact of developments in market conditions, business development and/or the regulatory framework, reporting any conclusions to the Board.
- To review the Bank's liquidity profile and recommend the overall liquidity risk framework (including Risk Tolerance) to the Board, including the results of different stress tests and test assumptions.
- To evaluate the Bank's risk profile and risk monitoring, in particular with respect to the following:

  a. Risk Appetite.
  b. Performance vs. Risk Tolerance.
  c. Risk trends.
  d. Risk concentrations.
  e. Allowance for Loan Losses.
  f. Key Performance Indicators for risk.
  g. Capital Adequacy.

- To evaluate the appropriateness of the Bank's risk measurement systems including economic capital, Daily Value at Risk and any significant credit risk measurement system.
- To evaluate on an annual basis, the completeness of the Bank's Principal Risk Categories, based on the recommendation of the Bank's Management.
- The CRO will take such steps as are appropriate to satisfy itself that the due diligence process followed for proposed strategic acquisitions or disposals (i.e., those requiring Board approval) is thorough and will review the key conclusions of the due diligence process, including the impact of the transaction on the Bank's risk profile and Risk Tolerance, reporting its conclusions to the Board.

The following are the different Risk Groups governed by the CRO:

- Institutional Credit Risk Management Group (ICRMG)

  ICRMG manages the credit risk arising from the Bank's corporate loans. It also handles credit administrative support, including legal documentation, preparation, review, and custodianship, credit limit control, special asset management, disposal of non-performing assets. Added to its functions, is the collection of the mortgage banking accounts and contracts-to-sell.

- Retail Credit Risk Management Group(RCRMG)

  RCRMG manages the credit risk arising from the Bank's consumer loans (personal loans & mortgage loans). It formulates credit policies based on the methodical studies of the behavior, i.e. credit-worthiness, aspect of the target market. RCRMG conducts a regular portfolio review. It analyzes and monitors the profiles and trends in its portfolio. Part of the function is the accreditation of the external collection agencies, which facilitates the recovery of the non performing assets.

  While ICRMG & RCRMG have their specialized scope in terms of credit risks, their main responsibilities are as follows:

  a. Review the quality of the Bank's credit portfolio and the trends affecting the portfolio.
  b. Endorse credit policies and oversee the effectiveness and administration of credit-related policies.
  c. Review the adequacy of allowance for loan losses.
  d. Establish the parameters for credit risk and asset concentration and review compliance with such limits.
  e. Provide oversight of management and guidance to the Board on credit risks and credit-related issues.

- Market Risk Management Department (MRMD)

a. MRMD manages the market risk, liquidity risk and interest rate risk in the banking book. It sets limits by taking into account the market predictions, capital, annual budgets, experience of the risk taking units and the Bank's risk appetite.

b. Review Assets and Liabilities management.

c. Review and recommend Investment strategies.

d. Endorse Market, Liquidity Risks, and IRRBB policies and oversee the effectiveness and administration of such policies.

e. Review and establish parameters for Market, Liquidity Risks, and IRRBB as well as investments concentration and evaluate compliance with such limit.

f. Provide oversight of management and guidance to the Board on Market and Liquidity Risks and related issues.

g. Review and recommend to the Board the appropriate Liquidity levels.

h. Review the Contingency Funding Plan

- Enterprise Wide Risk Management Department (EWRMD)

a. EWRMD handles the consolidation of all risks reported by each risk monitoring unit. All risks are assessed, evaluated, monitored and reported to RMC with appropriate recommendations as consolidated by EWRMD. Also, EWRMD ensures the implementation of all RMC policies and directives.

b. EWRMD is also accountable for operational risk monitoring and management of the Bank.

c. EWRMD reviews the important strategies and policies; periodically review operational risk reports and should monitor the execution of action plan for major operational risk event.

d. Promote the risk-aware organization culture, develop and continuously improve the operational risk management framework and approach, establish risk assessment approach establish operational risk indicators, monitor the change of operational risk.

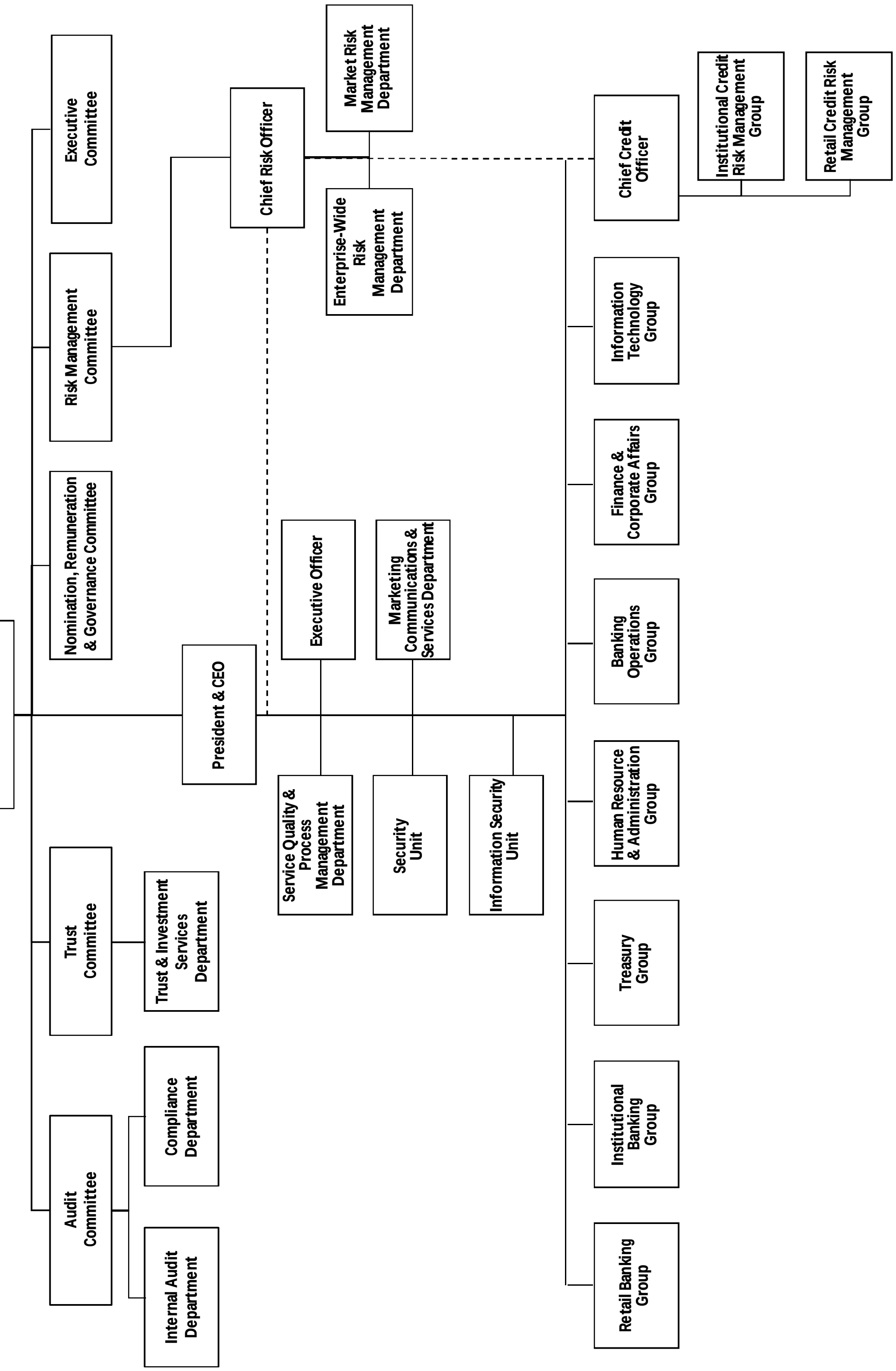
e. Supervision of the softer risks like the reputational risk management is part of the EWRMD functions.

f. Responsible for monitoring high risk areas of concern, particularly those that may impact our Bank's financials.

Bankwide Organizational Structure

31 December 2012

Chinatrust (Philippines) Commercial Bank Corporation



BREAKDOWN OF BANK'S CAPITAL

As of December 31, 2012

Item	Nature of Item	Amount	Amount
A. Tier 1 Capital			
A.1	Core Tier 1 Capital		
(1)	Paid-up common stock		2,479.687
(2)	Additional paid-in capital		53.514
(3)	Retained earnings		3,433.934
(4)	Undivided profits		314.922
(5)	Cumulative foreign currency translation		-7.635
A.2	Deductions from Core tier 1 Capital		
(1)	Common stock treasury shares (for consolidated basis)	15.952	
(2)	Net unrealized losses on available for sale equity securities purchased	0.016	
(3)	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI (net of specific provisions, if any), and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions, if any) referred to in Circular No. 560	6.987	
(4)	Deferred income tax (net of allowance for impairment, if any)	226.873	
	Total Deductions		249.827
A.3	Total Tier 1 Capital		6,024.595
B. Tier 2 Capital			
(1)	General loan loss provision (limited to 1.00% of credit risk-weighted assets)	148.751	
B.1	Total Tier 2 Capital		148.751
C. Gross Qualifying Capital			
(1)	Tier 1 Capital (Item A.5)	6,024.595	
(2)	Tier 2 Capital (Item B.9)	148.751	
D. Deductions from Tier 1 fifty percent (50%) and Tier 2 fifty percent (50%) capital			0.000
E.	Net Tier 1 and Tier 2 Capital		
E.1	Net Tier 1 Capital 1/ {C (1) minus [D (13) times 50%]}	6,024.595	
E.2	Net Tier 2 Capital 1/ {C (2) minus [D (13) times 50%]}	148.751	
F. TOTAL QUALIFYING CAPITAL [E (1) plus E (2)]			**6,173.346**

CREDIT RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2012

CREDIT RISK WEIGHTED ASSETS	*in Millions PHP*
I. On-Balance Sheet Assets	14,622.066
II. Off-Balance Sheet Assets	253.025
Total Gross Weighted Assets	**14,875.091**
Deduction : General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]	(32.889)
TOTAL CREDIT RISK WEIGHTED ASSETS	**14,842.201**

Breakdown of Credit Risk Exposure

in Millions PHP

EXPOSURE TYPE	Exposures, Net of Specific Provisions	Exposures Covered by CRM	Credit Risk-Weighted Asset
ON-BALANCE SHEET			
Sovereign Exposures	5,660.056	0.000	983.390
Multilateral Development Banks	0.000	0.000	0.000
Bank	1,113.105	0.000	849.837
Interbank Call Loans	0.000	0.000	0.000
Local Government Units	0.000	0.000	0.000
Government Corporation	172.256	0.000	173.420
Corporate Exposures	7,748.567	494.854	7,253.713
Housing Loans	1,072.556	0.000	641.561
Defaulted Exposures			
Housing Loans	34.736	0.000	34.736
Other Loans	115.485	0.000	173.227
ROPA	3.469	0.000	5.203
Other Assets			
Cash on Hand	341.840	0.000	0.000
Checks and Other Cash Items	4.503	0.000	0.901
Equity Securities	0.400	0.000	0.400
Loans to Individuals	3,479.223	5.913	3,473.310
Others	1,032.368	0.000	1,032.368
TOTAL	**20,778.564**	**500.767**	**14,622.066**

BREAKDOWN Of CREDIT RISK WEIGHT PER RISK BUCKETS
ON-BALANCE SHEET EXPOSURES
As of December 31, 2012

in Millions PHP

EXPOSURE TYPE	Exposures, Net of Specific Provisions	Exposures Covered by CRM	Exposures not Covered by CRM	Risk Weights						Credit Risk-Weighted Asset
				0%	20%	50%	75%	100%	150%	
ON-BALANCE SHEET										
Sovereign Exposures	5,660.056	0.000	5,660.056	4,676.666	0.000	0.000	0.000	983.390	0.000	983.390
Multilateral Development Banks	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Bank	1,113.105	0.000	1,113.105	0.000	52.752	346.595	0.000	665.989	0.000	849.837
Interbank Call Loans	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Local Government Units	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Government Corporation	172.256	0.000	172.256	0.000	0.000	0.000	0.000	173.420	0.000	173.420
Corporate Exposures	7,748.567	494.854	7,253.713	0.000	0.000	0.000	0.000	7,253.713	0.000	7,253.713
Housing Loans	1,072.556	0.000	1,072.556	0.000	0.000	861.989	0.000	210.566	0.000	641.561
Micro, Small, and Medium Enterprise (MSME)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Defaulted Exposures										
Housing Loans	34.736	0.000	34.736	0.000	0.000	0.000	0.000	34.736	0.000	34.736
Other Loans	115.485	0.000	115.485	0.000	0.000	0.000	0.000	0.000	115.485	173.227
ROPA	3.469	0.000	3.469	0.000	0.000	0.000	0.000	0.000	3.469	5.203
Other Assets										
Cash on Hand	341.840	0.000	341.840	341.840	0.000	0.000	0.000	0.000	0.000	0.000
Checks and Other Cash Items	4.503	0.000	4.503	0.000	4.503	0.000	0.000	0.000	0.000	0.901
Equity Securities	0.400	0.000	0.400	0.000	0.000	0.000	0.000	0.400	0.000	0.400
Loans to Individuals	3,479.223	5.913	3,473.310	0.000	0.000	0.000	0.000	3,473.310	0.000	3,473.310
Others	1,032.368	0.000	1,032.368	0.000	0.000	0.000	0.000	1,032.368	0.000	1,032.368
TOTAL	**20,778.564**	**500.767**	**20,277.796**	**5,018.506**	**57.255**	**1,208.584**	**0.000**	**13,827.892**	**118.953**	**14,622.066**

in Millions PHP

EXPOSURE TYPE	Notional Principal Amount	Credit Equivalent Amount	RISK WEIGHT	Credit Risk-Weighted Asset
OFF-BALANCE SHEET				
Performance Standby LCs – domestic (net of margin deposit) established as a guarantee that a business transaction will be performed	355.359	177.680	100%	177.680
Performance Standby LCs – foreign (net of margin deposit) established as a guarantee that a business transaction will be performed	69.785	34.893	100%	34.893
Trade related guarantees – shipside bonds/airway bills	2.049	0.410	100%	0.410
Sight LCs - domestic (net of margin deposit)	3.730	0.746	100%	0.746
Sight LCs - foreign (net of margin deposit)	121.292	24.258	100%	24.258
Usance LCs - domestic (net of margin deposit)	0.443	0.089	100%	0.089
Usance LCs - foreign (net of margin deposit)	46.892	9.378	100%	9.378
Spot foreign exchange contracts (bought and sold)	1,249.716	0.000	100%	0.000
Late deposits/payments received	4.893	0.000	100%	0.000
Inward bills for collection	3.168	0.000	100%	0.000
Outward bills for collection	0.000	0.000	100%	0.000
Travelers' checks unsold	0.000	0.000	100%	0.000
Trust department accounts	4,560.001	0.000	100%	0.000
Items held for safekeeping/custodianship	1.346	0.000	100%	0.000
Items held as collaterals	0.002	0.000	100%	0.000
Deficiency claims receivable	0	0.000	100%	0.000
Others	1,684.484	0.000	100%	0.000
			100%	
Exchange Rate Contracts	550.1143	8.287	100%	5.572
TOTAL	**8,653.274**	**255.740**		**253.025**

B. QUALITATIVE INFORMATION

Credit risk is the risk that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss. Credit risk arises primarily from the Bank's corporate and consumer loans (customer credit risk) and investment securities (issuer credit risk). Assessment of credit risk varies based on the types of the loan or financial transaction. For consumer loans, credit risk is measured at a portfolio level. However, identification of risk is determined on customer segment performance to derive risk-ranking determinants that constitute the formulation of the credit application scorecard. To ensure consistency in the identification of credit risk, scorecard performance is reviewed monthly to assess its efficiency in its risk determination function.

Credit risk management will be discussed in two parts:

1. Credit Risk covering Corporate Loans – managed and controlled by Institutional Credit Risk Management Group (ICRMG).
2. Credit Risk covering Retail Loans - managed and controlled by Retail Credit Risk Management Group (RCRMG).

❖ **<u>Credit Risk covering Corporate Loans</u>**

I. Strategies & Processes

Each credit proposal undergoes an evaluation process in order to determine its acceptability. The evaluation process involves the identification of credit risks after having assessed key factors including, target market/industry, management, appropriateness of credit facilities, terms and conditions, financial performance and condition, collateral and others.

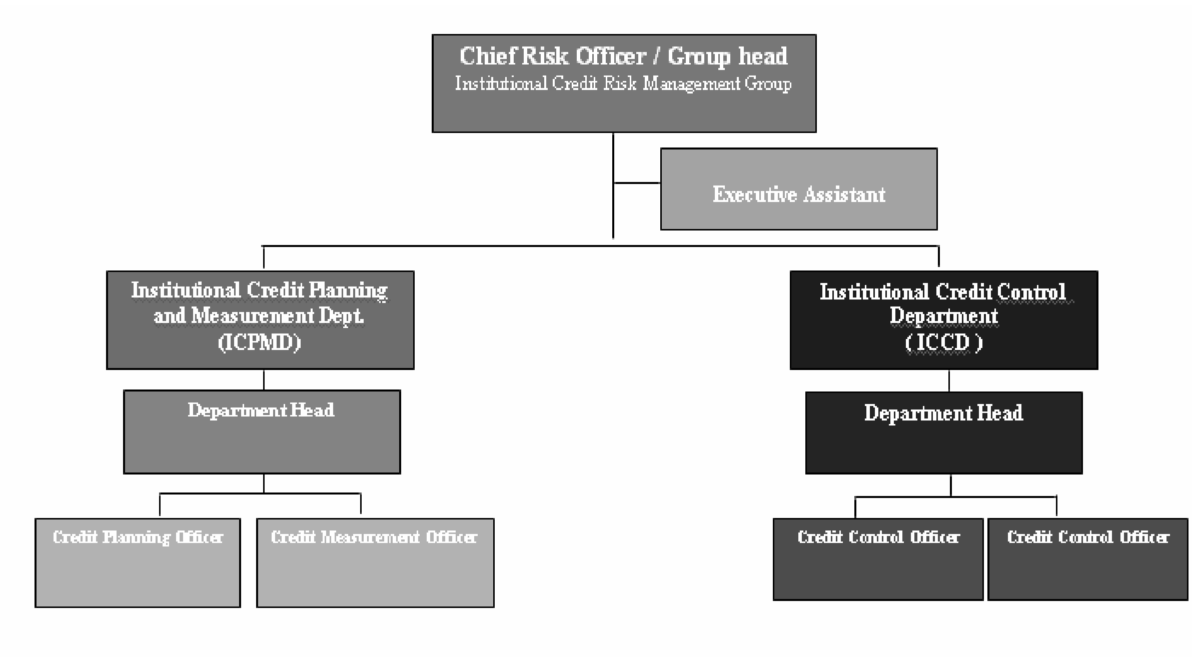
The credit risk identification framework also consists of an internal risk rating system that has a blend of both quantitative and qualitative factors. The Obligor's risk rating ranges from ORR 1 to 17, with ORR 1 being the highest and 14 to 17 representing the classified accounts (Especially Mentioned to Loss).

Non-Performing Loan (NPL) ratio has been identified as the Bank's basis for risk appetite. NPL ratio was selected as it is believed to be the primary measurement of a Bank's loan portfolio quality. In addition, the NPLs serve as the trigger for the specific loan provisioning exercise that directly impacts the profit and loss statement, and ultimately the Institution's equity through retained earnings. In establishing the range of risk tolerance, CTP evaluates its own historical NPL levels and compares these with that of the banking industry.

The approval process begins with a discussion/consultation/ among the Bank's Chief Risk Officer, IBG Head and President during a Credit Committee meeting convened annually, after the CTP's budget has been approved. While NPL ratio has been identified as a core ratio, other indicators may be introduced and considered to further define the Bank's risk appetite. Once evaluation has been completed, specific risk appetite factors, as well as proposed ranges of tolerance are endorsed by the Credit Committee to the RMC which holds the required approving authority.

While the NPL ratio is the basis for the Bank's risk appetite, it also continues to observe industry limits as prescribed by the BSP.

II. Structure & Organization



The main responsibilities of CTPs' Institutional Credit Risk Management Group are as follows:

- Review the quality of the Bank's credit portfolio and the trends affecting the portfolio.
- Endorse credit policies and oversee the effectiveness and administration of credit-related policies.
- Review the adequacy of allowance for loan losses.
- Establish the parameters for credit risk and asset concentration and review compliance with such limits.
- Provide oversight of management and guidance to the Board on credit risks and credit-related issues.

III. Scope & Nature of Risk Reporting and Measurement Systems

Scope and Nature

- Loan Review Report (LRR) / Early Warning 1, 2 and 3 (EW1, EW2 and EW3) / Account Planning Reports

One of the Bank's risk monitoring exercises is its semi-annual review of corporate accounts via the LRR. Exempted from this are accounts fully-secured by cash or government securities, and classified accounts. The LRR, accomplished six (6) months after approval date, covers the borrower's relationship with the bank, updated financial performance, repayment capability, identification of major risks, outlook, etc. It also assesses account classification and ORR. If deterioration in credit is discovered, either Institutional Banking Group (IBG) or Institutional Credit Risk Management Group (ICRMG) discretion to include it in any of the EW buckets, which calls for the submission of a Notification report, quarterly or more frequent LRR (for EW1 accounts), and Account Planning reports (for EW 2 and EW3 accounts) Apart from these, the RM is required to provide updates during the last Credit Committee meeting of each month.

The RM and Litigation Head of Legal Department are also required to report to the Credit Committee the status of the classified accounts at least twice a month and once a month for an EW account. Depending on the outstanding exposure of an EW2/EW3 account, the Relationship Manager (RM) regularly prepares the Account Planning reports for approval either of the Credit Committee or Executive Committee, the frequency of which will be based on the outstanding exposure of the account. The Account Planning report covers the loan details of the account including the outstanding principal, loan loss provision, the action plan and present status of the account which includes the progress diary enumerating the series of events that took place covering the Account Planning period and financial/operation analysis.

Monthly classified accounts are also being prepared by Institutional Credit Risk Management Group for the senior management guidance covering the list of classified accounts and its corresponding loan loss provision.

Lastly, the ICRMG Head regularly reports to the Risk Committee the Corporate Credit Risk Profile including, but not limited to the Past Due Loans, Non Performance Loans, Concentration Risks and the Action Plan for each Non Performing account, as well as their corresponding timelines. The ICRMG Head's report also includes the Performance Review which summarizes the actual performance versus projected performance, based on month-end and year-end budgets covering Non Performing Loans and Loan Loss Provisions.

- Credit Committee

  The Credit Committee is responsible for the granting of credit covering Corporate Loans, either through an endorsement or approval. It instills discipline for the orderly and prudent of granting of credit to corporate borrowers.

  The Committee is composed of the President, Group Head of Institutional Banking Group, Group Head of Institutional Credit Management. It is chaired by the President.

  Aside from granting credit for corporate borrowers, the committee also oversees the status of all classified and/or NPL accounts, and all EW accounts.

  The committee meets at least twice a month.

- Risk Management Committee

  The Risk Management Committee is responsible for the development and oversight of the Bank's Risk Management Program. Provides general direction and define the risk philosophy of the Bank.

Measurement Systems

As mentioned above, the Bank's credit risk identification framework also consists of an internal risk rating system that has a blend of both quantitative and qualitative factors. The Obligor's risk rating ranges from ORR 1 to 17, with ORR 1 being the highest and 14 to 17 representing the classified accounts (Especially Mentioned to Loss).

IV. Strategies and Processes for Mitigating Risks

- Internal Lending Limit
  a. Limit of SINGLE BORROWER / GROUP (Bankwide Portfolio)
    - Single Borrower/Group Limit – shall not exceed 100% of SBL (SBL= 25% of CTP's net worth;

- The Single Group definition shall be based on BSP's regulation.
- The Bankwide Portfolio includes contingent liabilities.

b. Limit of Real Estate Industry (Bankwide Portfolio)

- Shall not exceed 20% of the total loan portfolio, net of interbank loans;
- Real Estate Industry classification will be based on BSP's regulation on Real Estate Loans.

c. Limit of Industries (IBG Portfolio)

- Shall not exceed 25% of the IBG loan portfolio.
- Notes:
  - For those conglomerate groups which covers several industries, industry distribution will be proportioned based on the revenue contribution from each industry subject to Chief Risk Officer (CRO) approval.
  - Bank Money Market lending to be excluded from IBG loan portfolio.
  - Industry classification shall be based on the nature of business of the obligor/borrower. However, for individual obligors, industry classification shall be based on the purpose of the loan.
  - Industry Classification will be based on Parent Bank's definition (including contingent liabilities).
  - Government Agencies, credit secured by Republic of the Philippines (ROP) or 100% owned by the Government, credit secured by cash deposit, shall be excluded from the limit.

- The Monitoring Mechanism

Limit Trigger

Set up limit-trigger for Single Borrower/Group and for single industry, when the exposure reaches the trigger point, an appropriate action must be done immediately.

a. **For Single Borrower/Group** (Bankwide Portfolio) - 95% of the limit for Single Borrower/Group.

b. **For Real Estate Industry** (Bankwide Portfolio) - 95% of the limit for Real Estate Industry.

c. **For Industries** (IBG Portfolio) - 95% of the limit for all industries.

Once the exposure reaches the trigger point, an Action Plan with report analysis should be prepared by related RMs of IBG for Credit Committee approval within five (5) banking days from occurrence of the excess. For Single Borrower's and Real Estate Industry Limits, no new availments are allowed.

d. Single Borrower Concentration

To manage the Bank's overall exposures to a single borrower or group of companies, each related borrower and its credit facilities, as well as group limits are indicated in each proposal. All related borrowers are expected to be presented either for approval or review at the same time. To further strengthen control, a Group ORR sheet and Group Limit Summary are accomplished and signed by the appropriate officers and approving authorities. The Group ORR sheet establishes a single rating for an entire group of borrowers in consideration of each individual entity's rating coupled with the size of their respective credit facilities. Meanwhile, Group Limit Summary lists all facilities of each borrower, as well as their ratings. This enables the approvers to have an overall view of each group in a single report.

Definition of a Group

Apart from the definition provided by regulatory authorities and the bankers' association, a corporation or a natural person may be included in the group as long as the Bank's credit officer deems there is an underlying relationship.

Policy

1. As long as the bank has corporate banking credit exposure to more than one corporation or one natural person, we shall treat them as the same group according to the bank's definition.

2. The credit risk exposure of the same group shall be in compliance with both legal lending limit, internal lending limit and BSP rules and regulations.

3. The calculation of credit approval authority of the group should be based on aggregated group exposure and weighted average rating. In case a group is divided into packages (sub-groups) or obligors, the approval authority shall be based on aggregated exposure and weight average rating of respective packages or standalone obligors.

4. To determine packages and standalone obligors within the group, business and credit sides of originating unit shall reach consensus first, such consensus should be approved by CTP Excom.

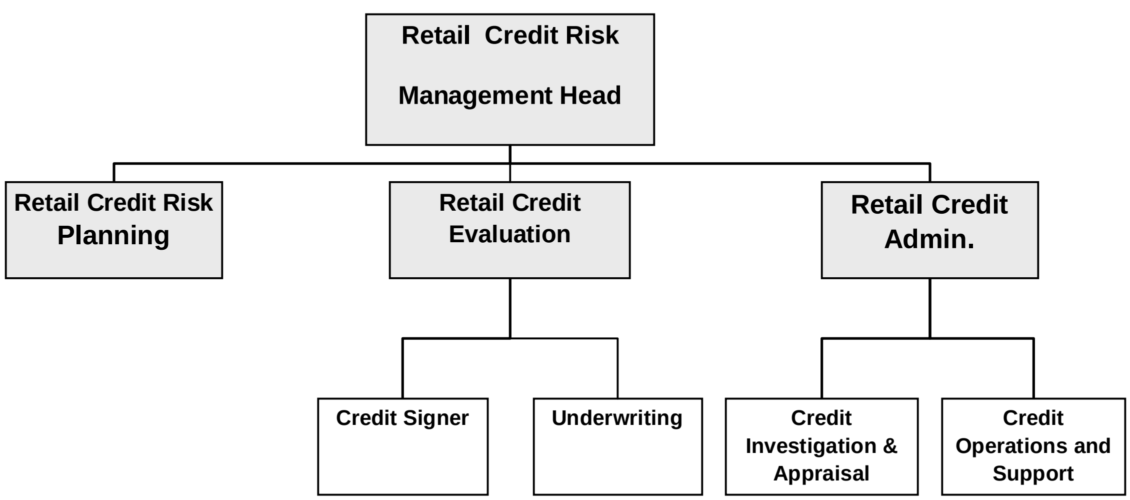
5. In case any member of the group is deteriorating, the whole group should be reviewed as to whether the credit limit should be reduced, frozen, or withdrawn.

❖ **Credit Risk covering Retail Loans**

I. Strategies & Processes

Retail Credit Risk Management Group or RCRMG manages the credit risk arising from the Bank's consumer loans (personal loans & mortgage loans). It formulates credit policies based on the methodical studies of the behavior, i.e. credit-worthiness, aspect of the target market and oversee the effectiveness and administration of credit-related policies. RCRMG establishes the parameters for retail credit risk and reviews compliance with such limits. It handles risk assessment and implements credit control to safeguard retail portfolio asset quality. It conducts regular portfolio review by analyzing and monitoring the profiles and trends in its portfolio to provide risk identification and risk mitigation strategies as well as provide oversight of management and guidance to the Risk Management Committee as well as the Board on retail credit risk and other credit-related issues.

II. Structure &Organization



The core responsibilities of Retail Credit Risk Management is summarized as follows :

a. Review the quality of the Bank's credit portfolio and the trends affecting the portfolio.

b. Endorse credit policies and oversee the effectiveness and administration of credit-related policies.

c. Review the adequacy of allowance for loan losses.

d. Establish the parameters for credit risk and asset concentration and review compliance with such limits.

e. Provide oversight of management and guidance to the Board on credit risks and credit-related issues.

Retail Credit Risk Management Group's (RCRMG) is composed of three departments to carry out its mandate of managing retail credit risk.

Retail Credit Risk Planning manages credit policy review, formulation and supervision based on empirical data and sound analyses. Enhancements or new policies may only be instituted from a progression, completion and analysis of the performance of a test program or changes to business initiatives or market behaviour as evidenced by analytics. The team is also responsible in generating risk monitoring tools such as but not limited to monthly asset quality reports and risk management committee reports; manages scorecard implementation, monitoring and reviews.

Retail Credit Evaluation handles risk assessment and control in retail loan application processing – covering pre-screening, verification, evaluation and decision process to grant loans to eligible borrowers. The over-all evaluation process makes use of an application scorecard engine which was developed to put in place a predictive tool to discriminate between potential good and bad accounts. Likewise, fraud detection is also in place to weed out fraudulent applications through rational screening, data matching and verification through active participation in data sharing with other BAP-member banks via the BAP-Credit Bureau.

The Retail Credit Administration Department is responsible for credit investigation and appraisal, document custodianship and insurance administration. The team observes the CI code of ethics in information validation and data gathering activities to establish the credit worthiness of mortgage loan applicants. It is guided by internal policies and generally accepted appraisal principles in determining collateral value. Likewise, it utilizes a systematic document monitoring and custodianship process to ensure safety of collateral documents.

III. Scope & Nature of Risk Reporting and Measurement Systems

Retail Credit regularly conducts a portfolio performance review of its retail loan products covering loan origination, account maintenance and account closures. In addition, segmentation analysis is accomplished to identify the biggest contributor to defaulting loans as well as distinguish factors or variables positive to the portfolio.

For product and portfolio performance monitoring, review and analysis, the following reports summaries are utilized:

1. Retail Credit Risk Management Report is a picture of the retail loan portfolio on a monthly basis. Alongside the presentation of the risk indicators such as non-performing loans (NPL), default rates (delinquency ratios), charge-off, aging flows, recoveries, et al; are information on the portfolio's performance by segments for pricing, industry, income and others. Likewise, approval rates, description on reject and deviations, vintage performance and scorecard performance are also included.

2. Risk Management Committee reports are produced and presented to the members of the committee every 2 months. This report contains statistical and analytical data on portfolio growth, portfolio mix, portfolio asset quality indicators as well as through the door information on loan origination and loan portfolio profile.

IV. Strategies and Processes for Mitigating Risks

For retail, risk assessment is present through the use of credit scorecards (specific to Public Personal Loans only) while implementation of risk caps (program and deviation) and execution of a risk criteria review process (rule-based criterion) is performed for Corporate Personal Loans and Mortgage/Housing Loans. In the normal scenario, existing approval authorities are granted based on qualification, competence and capacity. The approving authority hierarchy follows core credit policy set by parent bank such that credit delegation is defined by credit officer and senior credit officer levels by amounts and by risk level in evaluation and approval of its credit loan applications respective of the product.

Pursuant to the above, risk identification is performed through the following process workflows:

Process	Public Personal Loan	Corporate Personal Loan	Housing / Mortgage Loan
Pre-screening	Y	Y	Y
Duplicate Check	Y	Y	Y
Policy Check	Y	Y	Y
Credit Scorecard	Y	N	N
Credit Verification	Y	Y	Y
Appraisal	N	N	Y
Deviation Review	Y	Y	Y
Approval / Reject	Y	Y	Y

For new-to-bank Public Personal Loan applications, the use of a credit application scorecard measures the propensity of the customer to turn good or bad.

Score cut-offs are established to identify the risk classification of customers.

For existing Public Personal Loan applications, the use of a behavioural scorecard classifies customer risk level. Portfolio management strategies are then defined respective of customer risk classification.

For Corporate and Mortgage Loans, a set of eligibility criteria to assess initial acceptability of the loan application is in-place. The policies and guidelines covering these criteria are stipulated in the 3-level document document framework such that :

1. Policies (Governance, Global Retail Credit Policy) are established by the Parent Bank

2. Guidance / Principle (Product Guideline) provides an overview of the business strategy and defined management guidelines including product features, eligibility criteria, account management and approval guidelines as approved by CTP Board.

3. Procedures and Working Manual details

   a. The business and credit policies and operating level procedures managed by each department ((Product) Procedure) approved up to the Bank President.

   b. Defines the daily operational procedures for each business execution (Working Manual) as approved by the Retail Banking Group Head and each related Group Head; and

   c. Defines the daily operational procedures for each business execution (Working Manual) as approved by the Retail Banking Group Head and each related Group Head; and

   d. Defines the forms and documents utilized by users to perform business activities as approved by related Department Heads

Amendments or enhancements to the above documents require a review of all stakeholders as well as our respective Head Office counterparts to ensure the following:

1. Compliance to the global risk policy framework

2. Consistency to the local business and product objectives; and

3. Establishment of the policies and process that will govern the business and product

In addition, amendments to the fundamental policy/ies may only be instituted from a progression, completion and analysis of performance of a test program or changes to business initiatives or market behaviour as evidenced by empirical data; still subject to respective approval hierarchy.

The above policy guideline framework is instituted for all products under Retail Credit.

MARKET RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2012

MARKET RISK-WEIGHTED ASSETS

Item	Nature of Item	Amount
A.	Using Standardized Approach	***In Millions PHP***
A.1	Interest Rate Exposures	937.622
A.2	Equity Exposures	
A.3	Foreign Exchange Exposures	679.305
A.4	Options	
A.5	Sub-total (Sum of A.1 to A.4)	
B.	Using Internal Models Approach	
C.	TOTAL MARKET RISK-WEIGHTED ASSETS [1/] (Sum of A.5 and B)	1,616.927

B. QUALITATIVE INFORMATION

I. Strategies & Processes

The Bank divides market risk exposures into either trading or non-trading portfolios:

- The trading portfolio includes positions arising from trading activities, which aim at benefiting from short-term price movements, such as proprietary trading and market making.
- The non-trading portfolio includes positions not held for the purpose of earning capital gain.

The Market Risk Management Policy and Asset and Liability Management Policy are the cornerstone of managing market risk-taking and non-trading purpose activities in the Bank. These policies are developed to establish the Bank's risk management mechanisms, to facilitate risk communication within the Bank, and to provide proper management.

II. Structure & Organization

The RMC supervises the compliance and accomplishment of the Policy and provides the general direction and defines the risk philosophy of the Bank. While CRO evaluates annually the Bank's internal control and assurance framework to satisfy itself on the design and completeness of the framework relative to the Bank's activities and risk profile.

Market Risk Management Department (MRMD) is responsible in managing market risk. MRMD performs the second line of defense. It is responsible for designing and executing appropriate identification, measurement, monitoring, control and reporting of market risk; and developing the market risk management policy and relevant procedures; and monitoring and reporting overall market risk profile and limit utilization.

III. Scope & Nature of Risk Reporting and Measurement Systems

Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rates (including credit spread), foreign exchange, equities and commodities. The market liquidity of these types of instruments is also covered. The Bank's market risk originates from its holdings in its foreign exchange instruments and debt securities.
MRMD shall define appropriate and consistent market risk measurement methodologies in line with the business characteristics and risk source to properly evaluate the primary market risk exposure. The measurement results shall be applied to daily management and shall serve as a foundation for market risk planning, monitoring, and controlling. The most common measurements include:

a. Value at Risk, (VAR)

The VaR model has been developed as an independent and reliable quantitative technique for internal risk management purpose, and will be continually refined to meet the quantitative and qualitative standards of IMA (Internal Model Approach) requirements.

b. Stress Testing

Stress testing is used to from extreme market events or scenarios. Stress testing measures the calculate a range of trading exposures which result impact of exceptional changes in market rate/price, volatility or correlation in the fair value of trading portfolios as a supplement to VaR which is unable to capture the tail risk.

c. Factor Sensitivity

Factor sensitivity is measured to monitor the cross-product exposures within each risk type, including but not limited to foreign exchange and interest rate, equity. PVBP, the change in fair value as the yield curve parallel shifts up by

0.01% (1bp), is used to measure interest rate risk exposures of the Bank's trading portfolios. And FX Delta, the change in net present value as the foreign exchange rate moves up by one unit, 100%, is used to measure foreign exchange risk exposure of the Bank's trading portfolios.

IV. Strategies and Processes for Mitigating Risks

To manage the exposures within an acceptable level, the Bank may reduce the exposure or apply hedging measures upon internal approval to transfer the overall level of risk profile of a portfolio.

OPERATIONAL RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2012

OPERATIONAL RISK-WEIGHTED ASSETS (Amounts in Millions PHP)

Nature of Item	Gross Income (GI)	Capital Charge Factor	Capital Requirement (Capital Charge Factor x GI)
BASIC INDICATOR APPROACH (BIA)			
Year 3	1,819.199	0.150	272.880
Year 2	1,997.161	0.150	299.574
Last Year	1,994.671	0.150	299.201
Average	(Capital Requirement)		290.552
Adjusted Capital Charge	(Average X 125%)		363.189
Risk-weighted Amount	(Adjusted Capital Chg X 10)		3,631.895

B. QUALITATIVE INFORMATION

I. Strategies & Processes

Operational Risk - Defined as the risk of loss arising from direct or indirect loss from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Direct Loss is a result primarily from an operational failure while an Indirect Loss is the consequential impact followed by an operational risk event such as the extra overtime cost for dealing with that event.

Following are the strategies and processes in managing operational risks.

- **Review and Document Policies and Procedures**

  In reviewing and documenting policies and procedures, each business and operating unit shall ensure that they have a clear picture and ultimately ensure documentation of the following:

- **Processes** – Include all processes that are being done to ensure complete delivery of the transaction. This covers both client interface processes and internal control

- **People** – Identify everyone involved in the process, their duties and responsibilities and required competencies.

- **Reports** – That would be needed to assess risk management effectiveness.

- **Methodologies** – Details the tools and activities that would support decision making for critical areas of the process.

- **Systems and Data** – Cite the system and data requirement for the business unit to efficiently manage reports and methodologies employed.

All Business and Operating Units shall ensure that actual practices are consistent with documented policies and procedures (P and P).

- **Monitor and Formulate Action Plan**
  Monitoring and Formulating Action Plans against established standards, via the Key Risk Indicators (KRIs), is an important component in ensuring that these standards are met. There are three units involved in the over-all formulation and monitoring of action plans for all Business and Functional Units.

Improve Risk Process

After thorough study and analysis of data gathering indicated in the KRI, the Bank shall endeavor to improve existing processes, people, reports, methodologies and system. This is to ensure that the following shall be actively encouraged by Enterprise Wide Risk Management Department.

- Benchmarking performance to identify best practices.
- Cross-Functional interactive communication and knowledge sharing.
- Integrating the Bank's risk language, philosophy, policies and practices as part of the employees training programs.

II. Structure & Organization

Specific Operational Risk Management functional responsibilities, are defined as follows:

- **Board of Directors** – The Board provides governance, guidance and oversight to Senior Management and sets and approves the risk management policies, strategies and framework.

- **Risk Management Committee (RMC)** – The Risk Management Committee (in the context of operational risk) provides assistance to the Board in relation to oversight of the establishment, implementation, review and monitoring of operational risk management systems and policies including the Operational Risk Framework.

- **Senior Management Team -** The Senior Management Team and functional leaders oversee the Operational Risk Management Framework and have day-to-day responsibility and accountability for the management of operational risks in their functions.

- **Enterprise Wide Risk Management Department (EWRMD)** – The Enterprise Wide Risk Management Head is responsible for establishing, overseeing and supporting CTP's Operational Risk Management ("ORM") framework, achieved through:
  - Development of policies and procedures.
  - Providing guidance, support and advice in the identification, management and control of operational risks.
  - Providing training of ORM practices and processes, and support the building of an appropriate risk management culture.
  - Ensure that CTP meets BSP Basel II and Parent Bank's ORM requirements and the timely roll-out of Operational risk initiatives.
  - Objective and critical monitoring and reporting of Operational Risk activities, risk profiles and risk mitigation.

- **Internal Audit Department** – Internal Audit (in the context of operational risk) is responsible for providing independent and objective assurance that Operational Risk Policies and Procedures, and the Operational Risk Framework are being appropriately applied throughout all parts of the business.

- **Department Heads/Branch Managers** – is responsible for identifying, managing operational risk and reporting operational risk events and losses within their respective business or operating units.

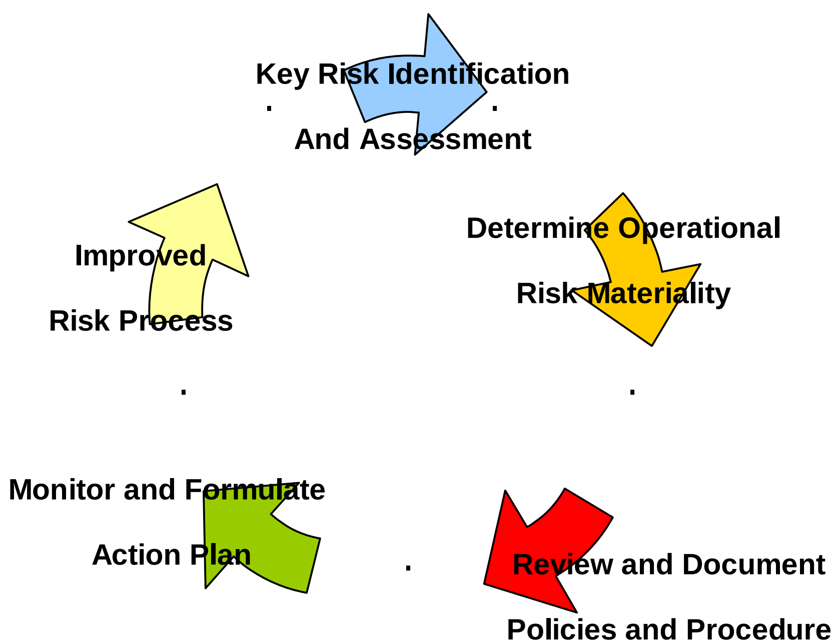
- **Other Operational Risk related functions -**Specialist departments including Legal, Compliance, Human Resources, IT, Information Security and Finance functions have a dual responsibility to manage both the operational risks within their own functions as well as provide support to other departments for operational risk management e.g. HR should actively participate in the management of risks relating to "people".

ALL Staff - All staff are responsible for observing Philippine laws and regulations, CTP's policies, procedures, delegations and managing risks in line with defined levels.

III. Scope & Nature of Risk Reporting and Measurement Systems

To ensure that all operational risks of the different Business and Operating Units are reported and properly managed, the Bank promotes the Operational Risk Process Cycle to have a periodic risk process assessment.

The Bank's Operational Risk Process is illustrated as follows:



The Bank requires all operating units, on a monthly basis, to formulate and use key risk indicators which represent standard measures that would indicate effectiveness operational risk management activities.

- **Determine Operational risk rating**

  Operational risk event are classified into the levels of its materiality namely: Low, Medium, High. To determine the operational risk materiality of each event, the Bank used Operational Risk Guide to enable and assist process owners in determining where to focus on and to identify the operational risk and determine its operational rating. The process in the identification of risk requires judging the probability of the error/loss occurrence on an inherent risk basis against three factors:

  - **Likelihood** – A judgment of the possibility of a risk event materializing taking into account everything that is being done to manage the risk.
  - **Significance** – A judgment of the potential impact of any risk materializing. The risk significance shall be judged on an inherent and residual risk basis.

Stress Testing

The Bank utilizes the scenario based survey which is sometimes motivated by recent events which seek to assess the resilience of the Bank and the financial system to an exceptional but plausible scenario.

IV. Strategies and Processes for Mitigating Risks

(Policies for hedging and/or mitigating risk, and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.)

Business unit risk profiles will be reviewed on at least an annual basis across the entire business. The basis of the review will include reference to:

- Changes in business operations – including new products
- Emerging or changing risks
- Compliance monitoring activities
- Risk Event reporting
- Loss data
- Audit reviews – internal and external

SMT members are required to provide an attestation to the Operational Risk Committee following this review. This attestation will verify that the risk profile for their business unit has been properly reviewed and updated accordingly.

Business risk profiles may be reviewed on a more frequent basis for a particular business unit if deemed appropriate due to changes or new developments.

OTHER RISKS

A. QUANTITATIVE INFORMATION, as of December 31, 2012

Under the Pillar II, internal capital adequacy assessment of the Bank considers other risks inherent to the Bank like the interest rate risk in the banking books, compliance risk, reputational risk and liquidity risks. The same is disclosed in the Internal Capital Adequacy Assesment Document (ICAAP) of the of the Bank which is updated yearly.

Results of the quantification show the following :

Risk Type	RWA (In Millions PHP)	REMARKS
Liquidity	0	No capital charge is required on account of sound liquidity management and more than sufficient contingency funding.
IRRBB	1,090	Based on Economic Value of Equity (EVE) Approach
Compliance	424	Based on Complaince Risk Self-Assessment Survey
Reputational	155	Based on Reputation Risk Self-Assessment Survey
TOTAL RWA	**1,669**	

LIQUIDITY RISK

I. Strategies & Processes

The Bank's risk appetite and tolerance are set by its set of liquidity risk limits. Liquidity risk limit is a tool for authorizing and controlling specific forms of liquidity risk taken by the Bank, by which the Bank ensures its liquidity risk exposure is consistent with the risk appetite of the Bank.

The most often seen limits are:

1. Short-term borrowing: This limitation prevents overdependence on low-cost but unstable funds from other financial institutions. Such limit is established by taking into account external liquidity conditions, our own asset and liability structure, credit facilities granted to us and peer banks' liquidity status.
2. Maximum cumulated outflow (MCO): Limits are set on short-term cash flow gaps in order to prevent overdependence on short-term funds to finance long-term assets, which will heighten liquidity risk. The establishment of MCO limits should factor in gap structure, deposit stability, deposit rollover ratio and the Bank's borrowing flexibility.

When the annual business planning and budgeting kicks off, the setting of risk appetite and tolerance is processed synchronously, Liquidity and Balance Sheet Management Unit will make the limit proposals in accordance with the current year's limit framework. MRMD will make limit recommendations taking into account risk tolerance, exposure, risk-reward tradeoffs and their proposals, if any, and then consult with the Parent Bank. These limits are updated annually and are subject to the review and approval of the Board of Directors or other delegated authorities.

II. Structure & Organization

Market Risk Management Department (MRMD) is responsible in managing liquidity risk. MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and studying asset and liability management related issues.

III. Scope & Nature of Risk Reporting and Measurement Systems

There are two types of liquidity risk: funding liquidity risk and market liquidity risk. Funding liquidity risk refers to the risk of inability to obtain funds at a reasonable cost within a reasonable timeframe to meet the financial obligations. Market liquidity risk arises when a specific asset cannot be sold for cash at a reasonable price within a reasonable timeframe. As it may have impact on funding liquidity risk, market liquidity risk must be factored in when assessing funding liquidity risk.

There is cost associated with the level of liquidity. Liquidity risk management aims to satisfy funding needs and maximize profits by allocating assets and liabilities in the most cost effective way within the approved risk tolerance.

All on- and off-balance sheet transactions are subject to liquidity risk management as they all affect the Bank's liquidity.

In risk measurement, Liquidity risk is often quantified by a combination of various indicators. The most common indicators include:

- **Loan to deposit ratio**: This ratio indicates fund shortage or surplus.
- **Maturity gap analysis**: Analyzing maturity mismatch will help understand cash flow gap by time bucket. Liquidity risk could be measured by this analysis together with an assessment of the Bank's funding capacity.
- **Liquidity ratio and composition**: This ratio, together with the composition and tenor of liquid assets, may be used to assess the Bank's ability to convert such assets into cash.

MRMD is responsible to continuously develop appropriate liquidity-related indicators and monitoring frequencies based on the characteristics and complexity of assets and liabilities. The overall liquidity risk may not be reflected by single risk indicator. MRMD takes all relevant indicators into account when assessing liquidity risk. The Bank shall send the liquidity indicators to Parent Bank for review.

IV. Strategies and Processes for Mitigating Risks

The liquidity risk limits are monitored on monthly basis. MRMD is responsible for independently monitoring the business units' compliance with the established limit framework, as well as distributing monthly liquidity gap report and advisory summary to ALCO, RMC and BOD for their review periodically.

Below is the Bank's Maximum Cumulative Gap in December 2012:

PHP Outflows (in USD millions)	Dec-12		
	7D	1M	2M
Cumulative Outflows	59	27	39
ALCO MCO Limit	(45)	(75)	(55)
Board MCO Limit	(50)	(80)	(60)
Within Limit?	*Yes*	*Yes*	*Yes*

FCY Outflows (in USD millions)	Dec-12		
	7D	1M	2M
Cumulative Outflows	(24)	(41)	(31)
ALCO MCO Limit	(95)	(95)	(105)
Board MCO Limit	(120)	(120)	(120)
Within Limit?	*Yes*	*Yes*	*Yes*

When the liquidity exposure exceeds the established limits, after the excess is confirmed, MRMD shall notify the unit allocated with the limit and the designated limit authority of such limit. Upon receipt of the notification, the unit that is allocated with the limit shall no longer transact to increase exposure. This limit breaching unit must be joined by the MRMD to analyze the causes and impacts of the excess, and draft an action plan addressing the issues. MRMD will submit the analysis and proposal to the limit authority for approval. The business unit involved and Liquidity and Balance Sheet Management Unit will adjust positions in accordance with approved decisions. The Parent Bank Risk Management Unit will be informed of the limit excess and excess-related information simultaneously.

The Bank applies a liquidity risk management strategy of maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions. In addition to its core deposit base, the Bank maintains a portfolio of marketable assets that can be readily liquidated in the event of an unforeseen interruption of cash flows. Additional funding may be secured from the inter-bank market by tapping the Bank's credit facilities. Further, the Bank maintains with the BSP liquidity reserves and statutory reserves of its non-FCDU deposits.

Regular stress-testing is performed. This includes the identification of the Bank's assets which can be readily liquidated in case of massive withdrawals. A withdrawal percentage of deposits are being assumed for this purpose. Contingency funding includes the available credit lines from counterparties, including the Parent Bank.

INTEREST RATE RISK IN THE BANKING BOOK

I. Strategies & Processes

For controlling interest rate risk, the Bank sets a limit on the interest rate sensitivity of the banking book. The limit, called delta NII (Net Interest Income) is a control on magnitude of the interest rate risk exposure taken by the Bank. A limit is also set on the sensitivity of the Economic Value of Equity of the Bank to changes in interest rate.

The Liquidity and Balance Sheet Management Unit will make the limit proposals. MRMD will make limit recommendations taking into account risk tolerance, exposure, risk-reward tradeoffs and their proposals, if any, and then consult with the Parent Bank. These limits are updated annually and are subject to the review and approval of the Board of Directors or other delegated authorities.

II. Structure & Organization

Market Risk Management Department (MRMD) is responsible in managing interest rate risk in the banking book. MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and studying asset and liability management related issues.

III. Scope & Nature of Risk Reporting and Measurement Systems

Interest rate risk refers to the impact on the Bank's profits or on economic value of non-trading purpose[1] assets, liabilities and derivatives when interest rates change.

Interest rate risk management aims to keep interest rate exposures within the Bank's risk appetite through the establishment of authorities, responsibilities and management procedures. It provides guide to adjusting asset and liability structures in anticipation of interest rate changes so that the Bank's profit can be maximized.

Interest rate risk stems from different sensitivity of assets and liabilities to interest rate change. The sensitivity of all on- and off-balance sheet items to interest rate movements must be duly examined when assessing interest rate risk.

Interest rate risk may be measured by the following tools:

[1] Non-trading purpose refers to a position not built for the purpose of earning capital gains

1. **Repricing Gap Report** : This report measures the repricing gap between asset and liability by various time buckets in order to understand interest rate mismatch.

2. **Risk Sensitivity**: This measures the impact of 1 basis point change in interest rate on net interest income (NII) and that on economic value of equity (EVE). The analysis of such impact on NII (1bp□NII) focuses on changes in interest income and expense within a year, hence, a short-term perspective. The analysis of such impact on EVE (1bp□EVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on.

3. **Stress Test**: This evaluates the impact of a significant change in interest rate on EVE. The test results will be compared with capital in order to examine the appropriateness of exposure.

The above risk measurement may generate different results while adopting different methodologies and assumptions. MRMD is responsible to develop the measurement, monitoring frequency, and parameters by taking into account their respective characteristics/ complexity of assets and liabilities and methodologies used. Any of the aforementioned items need to send to Parent Bank for review.

IV. Strategies and Processes for Mitigating Risks

The interest rate risk limit shall be reviewed annually in accordance to the annual business strategy and budgeting planning to ensure the effectiveness.

The interest rate risk limits are monitored on monthly or daily basis (AFS and HTM securities). MRMD is responsible for independently monitoring the business units' compliance with the established limit framework, as well as distributing monthly repricing gap report and advisory summary submit to ALCO, RMC and BOD for review periodically.

In the repricing gap report, non-trading purpose interest-sensitive assets, liabilities and derivatives are slotted into tenor buckets based on a set of repricing gap assumptions. For example, personal loans are placed by half of remaining life to maturity while demand deposits are slotted in 6 month. The repricing gap assumptions correspond to the accounts' repricing schedule or effective maturities and are subject to the endorsement of the CRO and Parent Bank review.

From the Repricing Gap schedule, Delta NII can be derived by calculating the 1 basis point change of interest rate to the repricing gap using simple interest formula of notional x 0.01%(1bp parallel shift of interest rate) x time. Calculation should be made per time bucket and should cover the 1 year time period only. Sum up the calculated interest within 1Y tenor bucket then convert the number to USD equivalent. Check if it does not breach the Delta NII limit.

Meanwhile, EVE can be derived by calculating first the present value of the repricing gap per time bucket using the current yield curve. Then calculate again the present value of the repricing gap per time bucket using the current yield curve plus 1 basis point increase. Sum up the present value difference per time bucket then convert the number to USD equivalent. Check if it does not breach the EVE limit.

The tables shown the sensitivity of the Bank's one-year earnings and economic value of equity to possible changes in interest rates.

2012

CCY	Increase in bps	Sensitivity of Net Interest Income	1 Month		6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
					Sensitivity of Equity (In Thousand Pesos)						
PHP	15	3,615	-397	-445	3,092	-2,269	-4,882	-172	-	-3,104	-8,177
(in 000s)	20	4,820	-529	-593	4,121	-3,024	-6,504	-230	-	-4,108	-10,867
	25	6,025	-661	-741	5,149	-3,778	-8,124	-287	-	-5,099	-13,540
FCY	15	-1,761	167	-157	1,024	8	258	887	-	-13,177	-10,989
(in 000s)	20	-2,348	223	-209	1,365	11	344	1,181	-	-17,498	-14,583
	25	-2,935	278	-261	1,705	13	430	1,475	-	-21,783	-18,143

2012

CCY	Decrease in bps	Sensitivity of Net Interest Income	1 Month		6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
					Sensitivity of Equity (In Thousand Pesos)						
PHP	-15	-3,615	398	445	-3,099	2,275	4,903	173	-	3,244	8,340
(in 000s)	-20	-4,820	530	594	-4,133	3,035	6,542	231	-	4,357	11,157
	-25	-6,025	663	743	-5,169	3,796	8,184	289	-	5,487	13,993
FCY	-15	1,761	-167	157	-1,026	-8	-260	-892	-	13,505	11,308
(in 000s)	-20	2,348	-223	209	-1,369	-11	-346	-1,191	-	18,081	15,151
	-25	2,935	-279	262	-1,712	-13	-433	-1,491	-	22,695	19,029

When the interest rate exposure exceeds the established limits, after the excess is confirmed, MRMD shall notify the unit allocated with the limit and the designated limit authority of such limit. Upon receipt of the notification, the unit that is allocated with the limit shall no longer transact to increase exposure. This limit breaching unit must be joined by the MRMD to analyze the causes and impacts of the excess, and draft an action plan addressing the issues. MRMD will submit the analysis and proposal to the limit authority for approval. The business unit involved and Liquidity and Balance Sheet Management Unit will adjust positions in accordance with approved decisions. The Parent Bank Risk Management Unit will be informed for the limit excess and excess-related information simultaneously.

Regular stress-testing is performed to approximate the effect of extreme interest rate fluctuation on the economic value of equity. Stress-testing can be done in the form of pre-defined parallel shifts in interest rate curve or on the basis of ad hoc projected interest rate scenario.

COMPLIANCE AND BUSINESS RISK

Compliance Risk is the risk of legal or regulatory sanctions, financial loss or loss to reputation a bank may suffer as a result of failure to comply with all applicable laws, regulations and codes of conduct and standards of good practice. As for Business Risk and as provided in BSP Circular 747 issued in 2012, refer to conditions which may be detrimental to a Bank's business model and its ability to generate returns from operations, which in turn erodes the franchise value.

The Bank's Compliance is an independent function that identifies, assesses, advises, monitors and reports on the Bank's Compliance and Business Risks. It creates a dynamic compliance system and fosters a culture of compliance within the institution. The Bank's Compliance Department oversees the Bank's adherence to the requirements of the regulatory agencies to ensure that the Bank conducts safe and sound banking practices.

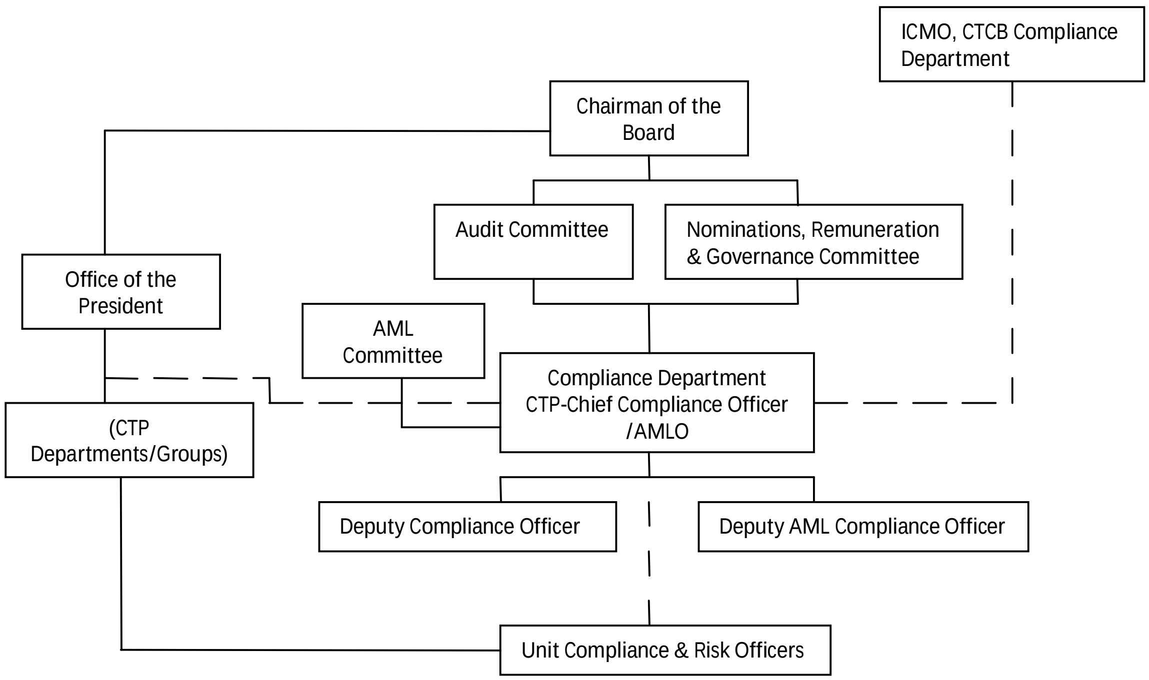
I. Strategies & Processes

In ensuring oversight and monitoring of Compliance and Business Risks, the Compliance Department's oversight function in the mitigation of both risk areas is identifying the role and responsibilities of Compliance with the line, operating and business units of the Bank and its resolution in cases of possible breaches. It aims to cover all possible avenues in the business that requires oversight in the Compliance function.

II. Structure & Organization

Compliance Department is composed of three (3) compliance officers, headed by Chief Compliance Officer, concurrently as Senior AML Officer, whose functions are embodied in the Bank's Compliance Charter and Compliance Program. They are assisted by Unit Compliance & Risk Officers (UCRO) who is designated by their respective group heads that independently functions as compliance officers of their respective groups and reports to the Compliance Department.

Below is the Compliance Department Organizational Chart



III. Scope & Nature of Risk Reporting and Measurement Systems

Compliance Department is an independent unit, reporting directly to the Board of Directors and administratively is under the Office of the President. Departmental and Independent Compliance Testing is established to have a risk based, quantitative and qualitative review of the regulatory requirements.

IV. Strategies and Processes for Mitigating Risks

The Compliance Program of the Bank provides for the clear and documented guideline that defined the Compliance structure and its functions, roles and responsibilities. In ensuring that these risks are monitored and mitigated, a comprehensive compliance system has been established to ensure that integrity and adherence in the regulatory requirements as well as in the accuracy and timeliness of reporting requirements of the Bank. The Bank's Compliance has defined constructive working relationship between the Bank and the regulators by having an open and clear communication line as well as appropriate monitoring and tracking until resolution of possible noted breaches to ensure of safe and sound banking operations is upheld within the institution.

REPUTATION RISK

I. Strategies & Processes

Reputational Risk is the risk or its likelihood that negative information, public opinion or publicity, regarding an institution and its business practices will lead to loss or reduction of revenue and /or decline in its customer base, and/or costly litigation

At Chinatrust Philippines (CTP), reputational risk is among the identified risks, which the Bank may be exposed to. Possible public embarrassment, erosion of trust from the customers, adverse impact on the revenue, are among the potent results of this risk, largely impacting on the name of the organization and the confidence of the customers to continue doing business with the Bank.

Based on the results of the internal Risk Self Assessment conducted at Chinatrust Philippines, reputational risk is among the "soft" risks, ranking lower in the list of risk categories. Historically, Chinatrust Bank, now operating on its 17th year as of this writing, has not had any reputational issues. However, CTP's Bank Management and its personnel continue to be vigilant of any untoward possibility brought about by reputational risk, through a well-established preventive posture.

Reputational Risk Identification

Critical to the effective reputation risk identification process was the active involvement of designated officers representing the various business, operational and other support department/groups of the Bank. Major classification of the reputational risk assessment process includes the following:

Reputational Risk Classification	***Risk Description***
Strategic Planning and Business Development	Reputational risk issues related to setting and fulfilling the goals and targets, business performance and profitability, market standing, and business outlook.
Systems, Controls and Infrastructure	Reputational risk issues related to information, data, security management, operations and processing, supporting systems and infrastructure, risk management process and controls, financial and budgetary controls, business continuity, and crisis management.

Human Resource	Reputational risk issues related to recruitment, retention, and succession planning, remuneration and incentive schemes, competence and training, motivation, conduct and integrity, morale, staffing and workload, health and safety, and others.
Operating Environment	Reputational risk issues that arose from market, political, social and technological developments.
Stakeholder Relations and Communications	Reputational risk issues related to stakeholder loyalty and confidence, satisfaction of their needs and expectations, and effective communications with them.
Legal and Regulatory Compliance	Reputational risk issues related to compliance with relevant laws, regulations and codes of conduct.
Corporate Governance	Reputational risk issues related to governance infrastucture and practices, and compliance with internal policies, codes of conduct, guidelines and procedures.
Contagion Risk or Rumors	Reputational risk issues related to reputation events affecting the Parent Bank, non-bank holding company, or other members of the group (e.g. sister companies, subsidiaries and affiliates).

Specific areas were assigned to the officer designates who were involved in the reputational risk self assessment survey. These officers were designated by the Group Heads to represent the group and were instrumental in determining the key sources of reputation risk events and losses in their respective assigned area. Part of the exercise was to assess the likelihood and impact of each reputational risk event, the maximum loss to be incurred if it happens, the necessary controls to be implemented to manage the reputational risk exposure, both preventive and reactive mitigating factors to the risk events. More importantly, the controls put in place were also checked as to its effectiveness, including the close monitoring of the execution of the controls by the identified risk owners, to preclude same risk event to happen again in the organization on a future time.

Stress Testing
In the calculation of reputational risk under the stressed scenario, the Bank utilizes the Reputational Risk Self Assessment (RRSA) Survey. The scenarios provided by the Business and Functional Units are already stressed based on their perceived risks and existing controls.

II. Structure & Organization

CTP has established a framework of roles and responsibilities consistent with the generally recognized principles of sound Reputational Risk Management practice. Ultimate responsibility for the appropriate management of Reputational Risk rests with the Board of CTP.

Specific Reputational Risk Management functional responsibilities are defined as follows:

ROLE	RESPONSIBILITIES
Board of Directors (Board)	The Board provides governance, guidance and oversight to Senior Management and sets and approves the risk management policies, strategies and framework. The Board shall: • Review and approve the Reputational Risk Management Policy and Framework. • Ensure compliance with all relevant regulatory requirements and periodically evaluate CTP's reputational risk profile and issues. • Ensure that appropriate systems and controls are in place within CTP in order to identify, assess, manage and monitor the business's Reputational Risk exposures. • Ensure that the Reputational Risk Management framework is subject to independent review by at least through the Internal Audit function.
Risk Management Committee (RMC)	The Board-established Risk Management Committee (RMC) shall be responsible for the development and oversight of the Bank's Risk Management Program. It shall provide general direction and define the risk philosophy of the Bank. The core responsibilities of the Risk Management Committee are as follows: • Identify and evaluate risk exposures • Develop risk management strategies. • Implement the risk management plan. • Review and revise the plan as needed. • Review and update the Risk Management Charter periodically.
Quick Assessment Team (QAT)	The QAT is a Reputational Risk Team chaired by the CEO, which is established to manage reputational risk events. The CEO has the option of mobilizing the QAT as he deems necessary. Responsibilities of the QAT are the following: • The QAT is empowered to deploy Spot Evaluators to further assess the extent of the reputation event • Based on feedback of the assigned Spot Evaluators, the QAT will make a report on the magnitude and impact of the event and give its recommendation/s to the

<table>
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<td></td>
<td>CEO
• Constant monitoring and feedback will be done by the Spot Evaluators and the QAT until the CEO decides that the treat is over.</td>
</tr>
<tr>
<td>President/Chief Executive Officer

(CEO)

Chief Risk Officer (CRO)

Senior Management Team</td>
<td>The President/Chief Executive Officer ("CEO") can help promote effective external communications, especially in the handling of reputation events, and ensure that the reputation perspective is adequately considered in the Bank's risk management processes.

The CEO shall be the spokesperson in the context of public relations with close coordination with EWRM Personnel and Marketing Communications and Services Department (MCSD) and will be responsible for keeping the Parent Bank's Public Relations Unit informed from time to time.

Should the CEO not be available, CTP will follow the approved spokespersons list and the External Communication Guidelines from Parent Bank. (Attached as Annex F – List of Approved Spokespersons)

The Chief Risk Officer holds the oversight function of the EWRMD. The CRO shall manage EWRMD and ensure that responsibilities related to the management of Reputational Risk are met. In the absence of the EWRMD Head, the CRO shall perform the functions assigned to the EWRMD Head in this policy.

The Senior Management Team oversees the Reputational Risk Management Framework and has day-to-day responsibility and accountability for the management of reputational risks in their functions. Specific responsibilities include:

• The development of respective policies and procedures and establishing controls to mitigate identified risks.
• The regular monitoring of risks against limits.
• Ensuring processes are in place for dealing with risks that have exceeded acceptable parameters.
• Responsible for identifying, managing and reporting reputational risk events and losses within their respective units.
• Reporting Reputational Risk incidents and the status of Reputational Risk Events to the Risk Management Committee and the Board, in accordance with the reputational risk reporting limits framework.
• Supporting and maintaining the Risk and Control Self-Assessment framework within their unit to continually identify, assess, manage and control reputational risks as they emerge and change.
Senior management plays a crucial role in setting the right tone from the top so that appropriate emphasis can be given to managing material risks, including reputation risk and implements the bank's risk management policies and ensures that relevant control systems work as intended.

Other levels of Management (including Department Heads)

The duties of other levels of Management are:

• Promoting staff awareness of reputational risk in their respective business, operation or function (in particular those that interact directly with major</td>
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Department Heads	stakeholder groups); • Identifying key risks (for example, strategic and operational risks) that can significantly affect the Bank's reputation or business and bring them to senior management's attention; • Being alert to early warning indicators of potential problems or threats to reputation; and • Ensuring that reputational risk is properly managed, with no major risks affecting reputation being inadvertently excluded (for dedicated risk management personnel).
Marketing Communication and Services Department (MCSD) Head	The Marketing Communications and Services Department Head is responsible for overseeing and supporting CTP's Reputational Risk Management ("RRM") framework, achieved through: • Providing guidance, support and advice in the identification, management and control of reputational risks. • Support the building of an appropriate risk management culture. • Objective and critical monitoring and reporting of reputational risk activities, risk profiles and risk mitigation. • Works with the EWRMD Head in formulating a response plan based on the reputational risk assessment results; • Reports to the CEO possible and actual reputational risk events for prompt action/handling; • Handles all communication matters, including media relations and public announcements; • Monitors local media reports for possible reputational risk events and is responsible for the compilation and filing of media releases for all reputation events.
Enterprise Wide Risk Management (EWRMD) Head	Enterprise Wide Risk Management Department is designated by the CEO to be responsible for coordinating the design, implementation and monitoring of the reputational risk management process. The EWRM Personnel shall at all times act in consultation with the CEO and the Reputational Risk Management Team (refer to Section 10.2) and shall be assigned, among other things, the following duties: • Development of policies and procedures; • Promoting and implementing the culture of reputational risk management; • Planning the overall structure and method of reputational risk management; • Ensure that CTP meets BSP Basel II and Parent Bank's RRM requirements and the timely roll-out of reputational risk initiatives; • Stipulating an identification and assessment method of reputational risk; • Standardizing the warning indicators of reputational risk early warning systems; • Providing training of RRM practices and processes; • Managing a reputational event; and • Monitoring and controlling the change of reputational risk

Reputational Risk Coordinators	Officers from business /operational units assigned as Reputational Risk Coordinators are responsible for working collaboratively with the Enterprise Wide Risk Management Head and Marketing Communications and Services Department Head to ensure reputational risks are appropriately and expeditiously identified, assessed, managed and controlled.
Internal Audit Function	The Internal Audit Department is an essential part of the risk management system that takes the lead in the ongoing monitoring of the internal control process and providing an independent assessment of system integrity. The Internal Audit functions have the responsibility to: • Review outputs from risk assessments and assess if business units are appropriately following up and addressing those risks identified during the risk assessment process. • Review and assess compliance with local laws and regulations and the internal policies and procedures of CTP. • Provide assurance to the Board that management is appropriately managing and controlling all material risks in the business. • Conduct independent examinations and evaluations of risk management processes (policies, procedures, systems) to assess whether reputational risks are within acceptable tolerance limits. This includes reviews to assess the appropriateness of the reputational risk identification, measurement, response, and monitoring methodology. • Scan for internal control deficiencies or ineffectively controlled risks and report these in a timely manner to the Audit Committee. • Monitor and immediately report to the Audit Committee for identified deficiencies that remain uncorrected; • Review and assess that existing policies and procedures remain relevant and adequate for the Bank's activities.
Other Reputational Risk related functions	Specialist departments including Legal, Compliance, Human Resources, IT and Finance functions have a dual responsibility to manage both the reputational risks within their own functions as well as provide support to other departments for reputational risk management e.g. HR shall actively participate in the management of risks relating to "people".
All Officers and Staff	All personnel of the Bank are responsible for observing Philippine laws and regulations, CTP's policies, procedures, delegations and managing risks in line with defined levels. All other staff can help to uphold CTP's reputation through their behavior, remarks and actions which may influence stakeholders' perception of the Bank.

III. Scope & Nature of Risk Reporting and Measurement Systems

Monitoring and Reporting

- ✓ In order to monitor and control reputational risk, early warning indicators of any changes to reputational risk shall be analyzed and evaluated for improvement, and reported to the CEO if necessary.

Early Warning Indicators

The EWRMD with the assistance of other functional and business units (i.e Treasury, Finance, BCM etc.) shall regularly monitor scenarios that may impact on reputational events through market environment reports, social and political trends, and asset development reports, among others. MCSD will likewise monitor local media reports for possible reputational events. Such obtained information shall be forwarded by business units and MCSD to the EWRMD to be reported to the CEO immediately.

Communications and Disclosures

With regard to the reputation events, personnel, financial or business related information, the Bank shall communicate regularly with the outsiders in a clear, honest, transparent and timely manner by way of a disclosure, announcement or press release/statement. This will help in preventing a communication vacuum and in alleviating or minimizing any damage to the Bank's reputation.

Reputational Risk Assessment and Quantification

Working towards an effective quantification process, the team made use of the template of the reputational risk self assessment survey as part of CTP's risk assessment process. Plausible as well as stressed situations were worked on, in the identification of the reputational risks. After identifying the major reputational risk events per risk classification, the assigned officers proceeded to determining the maximum loss.

IV. Strategies and Processes for Mitigating Risks

For an effective reputational risk monitoring and management infrastructure, CTP strongly supports the compilation of reputational events, including the corrective action from the various business, operational and support groups. This is an integral component of the management and monitoring of the implementation of the corrective action and continuous preventive position of the Bank. This forms part of the functional coverage of the EWRMD of the Bank.

Reputational Risk Reporting and Review of Strategies

To preclude damage to the Bank's name or to institute damage control for harm already done, action plan and strategies have to be continually revisited. This will ensure appropriateness of the action and strategies to the situation at hand.

STRATEGIC RISK

Strategic risk is the risk that the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This definition gives importance to business planning, where business decisions and its implementation are derived from.

The strategic risk of the Bank is a function of the compatibility of its strategic goals, the quality of carrying out its implementation, building the infrastructure to meet such goals.

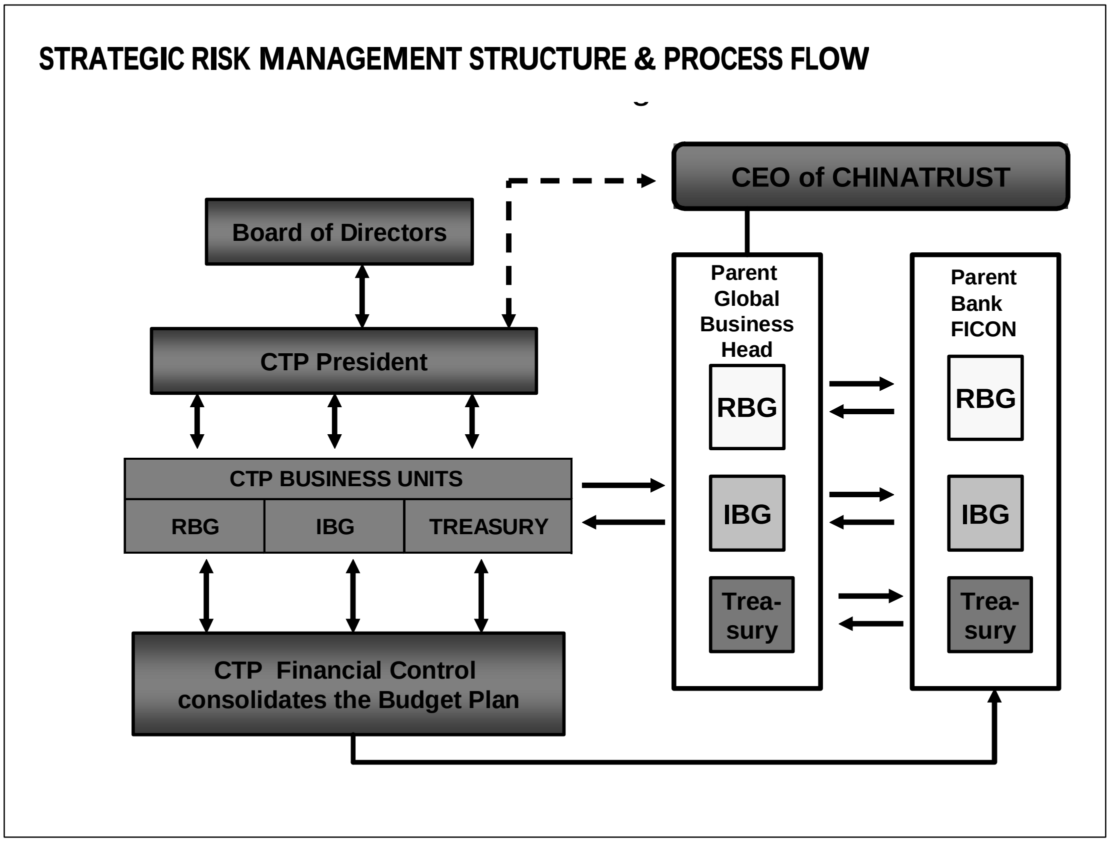
I. Strategies & Processes

Strategic risk management begins with the business planning. Business plans of the Bank establishes the strategies and priorities of the Bank in relation to its business. CTP in preparing and drawing up its business plans considers prevailing macro-economic environment indicators, lists down external opportunities and threats for each business segment, re-evaluate its internal strengths and weaknesses, analyze the competition against other local and foreign banks and thereafter issues out the overall country strategy.

The overall country strategy is drilled down to the business segments, e.g. Institutional Banking Group (IBG), Treasury Group and the Retail Banking Group (RBG). Annually, these business segments draw up a business plan that is endorsed for approval by the global business heads

After the formulation of the business plan, the Bank will then subject the budget plan to stress testing by scenario planning. Scenario planning is an advance stress testing that derives alternative future plausible and extreme scenarios from the environmental analysis, business plans and risk self-assessment survey. Scenario planning allows the Bank to make strategic adjustments for the future, if needed. The Bank determines the scenarios that could adversely affect earnings and these are identified through scenario planning. These scenarios are linked to the changes in net income through variance analysis between the budget vs actual income statement and balance sheet volumes of interest earning assets and interest bearing liabilities.

II. Structure & Organization



The strategic risk management function is being handled by the Finance Group (Capital Management Unit and Financial Control Department/ FICON) of the Bank with support from the business units and other functional departments such as Human Resources (HR), and Information Technology (IT) departments.

FICON performs the regular financial reporting and discussions with relevant business units, the CEO and the Board of Directors. They handle the consolidation of the Bank's budget plan from the different business segments which are reported to both the local and global management.

Capital Management Unit subjects this budget plan to a stress testing and allocates a capital charge for strategic risk in the quantification of the budget capital adequacy ratio.

Business Units re-evaluates its internal strengths and weaknesses and analyze the competition in the industry and thereafter crafts out the business strategy and plans.

Business Units & the Finance Group have a matrix reporting to their global counterpart in the Parent Bank, where the global counterpart ensures business strategies and plans of the Bank is aligned with the business objectives of the Parent Bank subject to the approval of the CEO of Chinatrust.

III. Scope & Nature of Risk Reporting and Measurement Systems

As part of setting the strategic goals of the Bank, capital planning and funding needs will be a major part of the supporting processes in drawing up the strategic plans for the next five years. Management information system (MIS) reports such as product profitability reports, customer specific marketing plans whether for a new customer or expanding existing business relationships based on customer profitability analysis will be in place thru information extracted from data warehouse systems. Finally, independent reviews and audits will be conducted at least annually by internal or external audit to ensure effectiveness and integrity of the strategic risk management framework of the Bank.

With the close and meticulous supervision/monitoring of Parent Bank on the progress of meeting the Bank's strategic goals, append below is the frequency of meetings & reporting, the nature of the reports, the reviewing authority and the evaluation and feedback process that has been put into place :

Monthly country business meetings and performance review (thru videocon) – CEO, CRO, CFO, Local Business heads (IBG, Treasury & RBG Group Head) with all the Senior Management Executives at Parent Bank; Reports presented shows financial results, management overview customer metrics information, market sentiment, competitors' new products and peer banks information & analysis. In addition, actual month-to-date (MTD) results are compared to the preceding two months, actual year-to-date (YTD) results compared to the YTD results for the same period last year. Likewise, YTD actual are compared against full year budget. Year on year growth and Budget achievement are also presented.

Local Board meeting is held every two (2) months, and the latest financial results are shown. In the Board meeting, the action plans of each business group to meet the budget or catch up plans (in case actual results are falling behind budget) with the budget are likewise presented and scrutinized by the Board.

IV. Strategies and Processes for Mitigating Risks

When strategic adjustments need to be done, proper alignment of internal resources and processes will be made as well to ensure that all change issues and interdependencies between processes across departments be managed to accomplish these adjustments. Human Resources (HR) will provide the training and development programs, while management succession plan will be part of the supporting processes in the achievement of the Bank's strategic goals.

Likewise, Information Technology (IT) will develop new application systems to support new products and other new business initiatives. It will also have to enhance/customize existing systems to eliminate manual processing and thereby improve operational efficiency.

Success or failure of strategy depends on the Bank's resources, capability to implement the strategic goals and the ability to effectively monitor and control the progress of implementation. With the set-up of reporting structure, strategic issues are promptly identified and reported to the local CEO and then to the matrix reporting authority at Parent Bank.

INCENTIVE STRUCTURE & RENUMERATION POLICIES

The Bank's remuneration, benefits and incentives policy is to provide its employees with a competitive compensation program (earning, salary advancement, opportunities and benefits) that is fair within the Philippine banking industry. Salary ranges are reviewed and adjusted during regular performance review and promotions. The Bank also ensures that minimum compensation and benefits required by Philippine laws (e.g., leaves, 13th month pay, SSS) are timely provided to its employees.

The Bank also offers performance-based compensation, such as project-based sales program incentives and profit-sharing discretionary bonus, to further boost productivity as well as retain talent within the Bank

NATURE & EXTENT OF TRANSACTION WITH AFFILIATES AND RELATED PARTIES

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. The Bank treats other subsidiaries and branch offices of the Parent Bank as related parties (referred to below as affiliates). 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 loans transactions with investees and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70% 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 respective total regulatory capital or 15% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts.

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

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, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10% of bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The following table shows information relating to the loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular but are allowed a transition period of two years from the effectivity of said circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes late.

	2012	2011
Total outstanding non-DOSRI accounts granted prior to BSP Circular No. 423	P 0.00	P 0.00
Percent of unsecured non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	0.00	0.00
Percent of past due non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	0.00	0.00
Percent of nonaccruing non-DOSRI accounts granted prior to BSP Circular No. 423 to total loans	0.00	0.00

The significant account balances with respect to related parties included in the financial statements (after appropriate eliminations have been made) follow:

			Outstanding Balance			
Category/ Transaction	Year	Amount of the Transaction	Due from Related Parties	Due to Related Parties	Terms	Conditions
Parent						
Current deposits						
Deposits		**P781,957,613**				
Withdrawals	**2012**	**-876,266,734**	**P49,571,502**	**P -**	**Demandable; non-interest bearing**	**Unsecured; no impairment**
Deposits		1,245,925,548				
Withdrawals	2011	-1,111,073,435	149,151,254	-	Demandable; non-interest bearing	Unsecured; no impairment
Deposits		1,461,900,435				
Withdrawals	2010	-1,465,084,363	12,344,960	-	Demandable; non-interest bearing	Unsecured; no impairment
Bills payable						
Availments		**48,464,650,000**				
Settlements	**2012**	**-47,192,900,000**	**-**	**1,929,350,000**	**1-7days; interest bearing**	**Unsecured; no impairment**
Availments		19,324,692,500				
Settlements	2011	-19,239,807,500	-	657,600,000	1-7days; interest bearing	Unsecured; no impairment
Availments		17,855,505,000				
Settlements	2010	-17,686,255,000	-	569,920,000	1-7days; interest bearing	Unsecured; no impairment
Interest expense on bills payable	**2012**	**5,088,406**	**-**	**5,088,406**	**Demandable; interest bearing**	**Unsecured; no impairment**
	2011	4,133,063	-	4,133,063	Demandable; interest bearing	Unsecured; no impairment
	2010	1,837,967	-	1,837,967	Demandable; interest bearing	Unsecured; no impairment
Entities under common control						
Current deposits to Chinatrust-- New York						
Deposits		**46,831,721,870**				
Withdrawals	**2012**	**-46,822,773,853**	**26,580,996**	**-**	**Demandable; non-interest bearing**	**Unsecured; no impairment**
Deposits		301,823,527				
Withdrawals	2011	-305,168,288	21,053,948	-	Demandable; non-interest bearing	Unsecured; no impairment
Deposits		266,305,260				
Withdrawals	2010	-283,473,750	39,745,834	-	Demandable; non-interest bearing	Unsecured; no impairment

Category/ Transaction	Year	Amount of the Transaction	Outstanding Balance: Due from Related Parties	Outstanding Balance: Due to Related Parties	Terms	Conditions
Current deposit to Chinatrust,USA						
Deposits		**20,719,276**				
Withdrawals	**2012**	**-25,064,438**	-	-	**Demandable; non-interest bearing**	**Unsecured; no impairment**
Deposits		7,201,534				
Withdrawals	2011	-18,605,550	4,465,866	-	Demandable; non-interest bearing	Unsecured; no impairment
Deposits		45,465,545				
Withdrawals	2010	-32,309,000	-	-	Demandable; non-interest bearing	Unsecured; no impairment
Current deposits to Chinatrust – Hongkong						
Deposits		**6,289,911**				
Withdrawals	**2012**	**-14,717,444**	**1,752,153**	-	**Demandable; non-interest bearing**	**Unsecured; no impairment**
Deposits		30,269,464				
Withdrawals	2011	-26,009,624	10,400,065	-	Demandable; non-interest bearing	Unsecured; no impairment
Deposits		121,216,370				
Withdrawals	2010	-114,780,149	5,954,703	-	Demandable; non-interest bearing	Unsecured; no impairment
Current deposits to Chinatrust- Tokyo						
Deposits		-				
Withdrawals	**2012**	**-1,523,785**	-	-	**Demandable; non-interest bearing**	**Unsecured; no impairment**
Deposits		-				
Withdrawals	2011	-	953,723	-	Demandable; non-interest bearing	Unsecured; no impairment
Deposits		-				
Withdrawals	2010	-4,326,597	998,614	-	Demandable; non-interest bearing	Unsecured; no impairment
Key management Personnel						
Loans and receivables						
Additions		**14,731,600**				
Collections	**2012**	**-16,640,816**	**23,630,620**	-	**1-5 years; interest bearing**	**Secured and unsecured; with impairment**
Additions		17,721,075				
Collections	2011	-12,888,455	22,001,558	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Additions		23,184,539				
Collections	2010	-23,932,359	17,168,938	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Interest income on loans and receivables	**2012**	**2,060,212**	**2,060,212**	-	**Demandable; interest bearing**	**Unsecured; no impairment**
	2011	1,634,546	1,634,546	-	Demandable; interest bearing	Unsecured; no impairment
	2010	1,710,962	1,710,962	-	Demandable; interest bearing	Unsecured; no impairment

			Outstanding Balance			
Category/ Transaction	Year	Amount of the Transaction	Due from Related Parties	Due to Related Parties	Terms	Conditions
Other related Parties						
Employees' retirement fund held by Trust Operations						
Deposit liabilities						
Deposits		**555,438,222**				
Withdrawals	**2012**	**-551,006,065**	**-**	**3,391,647**	**1-3years, interest bearing**	**Secured, no impairment**
Deposits		551,194,565				
Withdrawals	2011	-537,672,882	-	578,985	1-3years, interest bearing	Secured, no impairment
Deposits		384,758,195				
Withdrawals	2010	-365,777,550	-	7,549,352	1-3years, interest bearing	Secured, no impairment
Interest expense on deposit liabilities	**2012**	**17,559**	**-**	**17,559**	**Demandable; interest bearing**	**Unsecured; no impairment**
	2011	81,298	-	81,298	Demandable; interest bearing	Unsecured; no impairment
	2010	864,608	-	864,608	Demandable; interest bearing	Unsecured; no impairment
TOTAL	**2012**	**1,181,781,534**	**103,595,483**	**1,937,847,612**		
TOTAL	2011	233,451,386	209,660,960	662,393,346		
TOTAL	2010	186,810,113	77,924,011	580,171,927		

The remuneration of directors and other members of key management personnel follows:

	2012	2011	2010
Short-term benefits	**P50,375,569**	P53,721,221	P33,794,220
Post-employment benefits	-	-	2,569,325
Other long-term benefits	**1,333,892**	443,435	150,781
	P51,709,461	P54,164,656	P36,514,326

On December 20, 2012, the SEC issued Circular No. 12-2012 which provides the guidelines on the disclosure of transactions of reporting entities with a retirement fund of their employees, in accordance with SRC Rule 68 and PAS 24, Related Party Transactions.

In accordance with the aforementioned Circular, the Bank discloses the following:

- The Bank has a separate funded noncontributory defined benefit plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements;
- The Bank's Trust Operations Department currently maintains and manages the Bank's retirement plan assets under a Trust and Other Fiduciary Account set-up. For 2012 and 2011, fees earned by the Trust Operations Department from the Bank's retirement plan assets amounted to P255,701 and P211,772, respectively;
- The Employee Retirement Fund Committee, composed of the Bank's Treasurer as chairman and various senior officers as members, sets the investment policies and other major decisions relating to the Bank's retirement plan assets;
- As of December 31, 2012 and 2011, the carrying values of the Bank's retirement plan assets, which approximate its fair value, are P107.6 million and P86.5 million, respectively. As of December 31, 2012 and 2011, the carrying values of the Bank's retirement plan liabilities, which approximate its fair value, are P88.1 million and P140.3 million, respectively;
- The Bank's retirement plan assets are invested in various debt and equity instruments, such as government securities, corporate papers, stocks traded in the Philippine Stock Exchange, as well as investments in BSP's special deposit account and placements with the Bank. The Bank's retirement plan assets do not have investments in real properties;
- As of December 31, 2012 and 2011, the Bank's retirement plan assets have outstanding deposit liabilities with the Bank, in the nature of time deposits, amounting to P3.4 million and P0.6 million, respectively. Interest expense incurred by the Bank from these deposits for 2012 and 2011 amounted to P.02 million and P0.1 million, respectively.
- In 2012, deposits and withdrawals with the Bank by the Bank's retirement plan assets amounted to P555.4 million and P551.0 million, respectively;
- In 2011, deposits and withdrawals with the Bank by the Bank's retirement plan assets amounted to P551.2 million and P537.7 million, respectively; and
- Other than deposit liabilities with the Bank, the Bank's retirement plan assets do not have investments in securities, whether debt or equity, issued by the Bank as of December 31, 2012 and 2011.