Maybank

2012 Annual Report

A big leap forward

About the Cover

Exhibiting intense passion and focus as that of a great athlete, Maybank Philippines Inc. (MPI) confidently takes a big leap forward in perfect form and graceful flexibility, enhancing the Bank's forward momentum to achieve record performance in 2012 and rise up to greater challenges ahead.

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Who We Are

Maybank Philippines Incorporated (MPI) is a full-service commercial bank licensed by the Bangko Sentral ng Pilipinas (Central Bank of the Philippines). MPI was born in 1997 when Malaysia's biggest bank Maybank (Malayan Banking Berhad) acquired 60% equity stake in PNB Republic Bank, renamed the bank Maybank Philippines, Inc. and took over its management. In August 2000, Maybank successfully acquired up to 99.96% of MPI to become the first foreign bank to have almost 100% ownership stake in a Philippine commercial bank under the new Philippine banking law.

Maybank Philippines has an extensive network of 55 branches which are strategically located in key cities nationwide. There are a total of 28 branches in Metro Manila, the capital of the Philippines, and 27 branches in the provinces of Luzon, Visayas and Mindanao. These branches provide a wide range of financial products and services to meet the needs of the retail and business segments. MPI is also involved in treasury operations, with an emphasis on money market operations and foreign exchange trading, as well as trust services.

Maybank Philippines is a member of the Maybank Group, a regional financial services leader with an international network of over 2,200 offices in 20 countries namely Malaysia, Singapore, Indonesia, Philippines, Brunei Darussalam, Vietnam, Cambodia, Thailand, Papua New Guinea, Hong Kong SAR and People's Republic of China, Bahrain, Uzbekistan, Myanmar, Pakistan, India, Saudi Arabia, Laos, Great Britain and the United States of America. Backed by assets of over USD160 billion, the Group offers an extensive range of products and services, which includes commercial banking, investment banking, Islamic banking, stock broking, insurance and takaful and asset management. It has over 47,000 employees serving more than 22 million customers worldwide.

VISION

Be among the leading financial solutions provider in the target markets and communities we commit to serve

MISSION

By 2015:

1. Among the top 15 in the Philippines in respect of ROE and key productivity ratios
2. A major overseas unit of the Maybank Group by being the 3rd largest contributor to International after Singapore and BII
3. Recognized for delivering superior value propositions to our customers
4. Among the top-quartile employers of talent in the Philippines

STRATEGIC INTENT

1. Facilitate cross-border trade and flows between the Philippines and ASEAN
2. Serve corporate clients from a total relationship perspective
3. Expand footprint to strengthen presence and reach a wide group of customers
4. Pursue above-market business growth to capture a bigger share of the domestic market

BUILDING THE MAYBANK BRAND IN THE PHILIPPINES

Maybank is built by Maybankers. Every one of us has a vital role to play in delivering the Maybank brand promise. We build the Maybank brand everyday, through our actions and decisions.

Our brand is about one simple, powerful and unique idea: Humanising Financial Services.

Our Promise

Maybank wins hearts and inspires confidence though its commitment to treating customers and staff with respect. We make Humanising Financial Services more than just a promise but the way we do business.

Our Values

Our T.I.G.E.R. values are the essential guiding principles for our hearts and minds, for those situations where the rule book provides no answers.

Our T.I.G.E.R. values define what we believe in and what we stand for.

TEAMWORK
We work together as a team based on mutual respect and dignity.

INTEGRITY
We are honest, professional and ethical in all our dealings.

GROWTH
We are passionate about constant improvement and innovation.

EXCELLENCE AND EFFICIENCY
We are committed to delivering outstanding performance and superior service.

RELATIONSHIP BUILDING
We continuously build long-term and mutually beneficial partnerships.

Our Brand Drivers

The Brand Drivers define the Maybank way of doing things,how we translate our values into actions. They help us deliver 'Humanising Financial Services' through our behaviour. They are about the way we treat each other and the way our customers expect to be treated.

The 5 Brand Drivers

1 **Do the right thing**
Treat others in the way you would want to be treated if you were in their place with fairness, honesty, and clarity.

2 **Delivery not just promise**
Honoring commitments and fulfilling promises is the only way to build trust and mutual respect.

3 **Being at the heart of the community**
Actively contribute to help build and support communities around you, be they your colleagues customers, or our broader society.

4 **Flexibility within a framework**
Be flexible in your approach to resolve issues while keeping within agreed guidelines.

5 **Building long-term sustainable relationships**
Nurture relationships based on trust so that mutual commitment and benefit is assured over the long term.

Our Brand Personality

When it comes to brand expression and how we speak to the world outside, all of Maybank must be seen, heard and felt as one, through a consistent Brand Personality.

1 **Courageous**
Maybank stands for confidence and conviction, conveying strength, determination, and leadership.

2 **Genuine**
Maybank is honest, sincere, and up front - what you see is what you get.

3 **Creative**
We question the given. We go beyond the obvious to develop new and innovative ideas. We delight in delivering valuable solutions.

4 **Empathetic**
We always listen to what is being said, and what is implied. We understand our customers by putting ourselves in their shoes.

5 **Collaborative**
We take pride in working together, both internally and externally, to deliver the best solutions, support and advice.

Worldwide Network

2,200 OFFICES
Over 2,200 offices in 20 countries

22 mil CUSTOMERS
47,000 employees serving over 22 million customers

77 bil MARKET CAPITALISATION
Market capitalisation of RM77 billion

495 bil TOTAL ASSETS
Total assets of RM495 billion

5.74 bil NET PROFIT
Net profit for FY2012 of RM5.74 billion

Maybank is Southeast Asia's fourth largest bank by assets. It is listed and headquartered in Kuala Lumpur and is Malaysia's largest company by market capitalization.

The Maybank Group has a global network of over 2,200 offices in 20 countries including in all 10 ASEAN countries. The Group commenced banking operations in Malaysia in 1960 and today operates from its key home markets of Malaysia, Singapore and Indonesia, as well as across the Asia-Pacific region and major international financial centers. These include the Philippines, Brunei Darussalam, Cambodia, Vietnam, Laos, Thailand, Myanmar, China, Hong Kong, Papua New Guinea, Pakistan, India, Uzbekistan, Saudi Arabia, Bahrain, United Kingdom and the United States of America.

Having over 50 years of experience and an early presence in global banking markets, the Maybank Group offers businesses and investors the ability to tap into its resources and network to meet their financial needs. Its range of services include corporate and consumer banking, investment banking, insurance & takaful, asset management, Islamic banking, offshore banking, stock broking, venture capital financing and much more.

•**Bahrain** 1 branch •**Brunei** 3 branches •**Cambodia** 12 branches •**China** 2 branches •**Hong Kong** 1 branch, 1 branch via Kim Eng •**Indonesia** 1 branch via Maybank Syariah Indonesia, 415 branches via 97.5% owned BII, 6 branches via Kim Eng •**India** 1 branch via Kim Eng •**Labuan** 1 branch •**London** 1 branch •**New York** 1 branch, 1 branch via Kim Eng •**Malaysia** 401 branches, 4 branches via Maybank IB •**Papua New Guinea** 2 branches •**Pakistan** 1, 193 branches via 20% owned MCB Bank, 4 branches via 25% owned Pak-Kuwait Takaful Company •**Philippines** 55 branches, 3 branches via Kim Eng •**Singapore** 22 branches, 4 branches via Kim Eng •**Thailand** 47 branches via Kim Eng •**Uzbekistan** 1 office via 35% owned Uzbek Leasing International •**Vietnam** 2 branches, 140 branches via 20% owned An Binh Bank, 7 branches via Kim Eng •**Saudi Arabia** 1 office via Anfaal Capital •**Myanmar** 1 representative office

Trailblazing a new future in banking

Embodying the majestic tiger, Maybank Philippines, Incorporated (MPI) roars its way into the Philippine Banking Industry, building a solid reputation as one of the country's premier commercial banks.

In 2012, MPI initiated various strategic plans and programs and launched an array of innovative banking services, featuring a wide range of benefits that paved the way to its record performance during that year.

JANUARY

January 17, 2012. MPI signed a deal with E-Money Plus Inc. (EMPI), the remittance arm of ABS-CBN Global, the largest multi-media network in the Philippines, for the facilitation of remittances into the country. MPI will provide the gateway of online interbank fund transfer for the crediting of accounts of beneficiaries who maintain accounts with BancNet member banks.

The partnership allows EMPI, to tap most banks in the Philippines through MPI, which pioneered real time crediting of accounts for BancNet member banks.

FEBRUARY

February 1, 2012. MPI's Auto Finance Group celebrated its 10th anniversary. This group was instrumental in stimulating the consumer growth during MPI's early stages of business and remains a significant contributor to the Bank's consumer loans portfolio.

On the same day, MPI sponsored the Alabang Eagles Rugby Club, a leading Rugby Club in the Philippines that competes in local and regional rugby competitions.

MARCH

March 1, 2012. Maybank announced the appointment of Mr. Herminio M. Famatigan, Jr. as the first Filipino President and CEO for MPI. He succeeds Mr. Amos Ong who took a new assignment as head of Regional Client Coverage of Global Wholesale Banking, Maybank Singapore.

March 14, 2012. MPI enters into partnership with AsianLife & General Assurance Corp. (AsianLife), a top provider of group medical and life insurance benefits, to provide insurance coverage to the employees, borrowers and depositors of the bank. AsianLife is part of the Maybank ATR Kim Eng Group, the leading conglomerate of diversified non-bank financial services in the Philippines.

March 16, 2012. MPI, in cooperation with Maybank ATR Kim Eng, conducted the first Maybank Economic Briefing for top clients. Entitled "Return of the Dragon: Reinvesting in Asia," the forum provided insights on investing in the region and the Philippines. Resource persons were from Maybank ATRKE, Maybank IB and Global Markets of Maybank Singapore.

On the same day, MPI hosted the 2012 Golf Invitational, an annual corporate golf event for top/key customers at The Country Club, Laguna. Leading the 7-flight tournament is MPI Chairman of the Board Dato' Mohd Salleh. Aside from MPI Business Unit Heads, the annual tournament gathered 22 Maybank corporate customers to a friendly game of golf.

Our Achievements

MAY

May 21, 2012. MPI inaugurated its Lipa Branch in Batangas to reach out to more customers in an area known for a growing agriculture, commerce and consumer market.

May 23, 2012. MPI launched its iDrive for an iGadget promo for Auto Loans to target the young, tech savvy market.

JULY

July 6, 2012. MPI announced the 4 winners of the GO Ahead Challenge in the Philippines from an initial entry of over 300 top students from the top Philippine universities.

July 18, 2012. MPI signed a contract with Phoenix Petroleum to provide financing for their expansion program. Phoenix is the number one independent oil player in the Philippines and is one of the most aggressive in terms of retail expansion.

AUGUST

August 1, 2012. MPI participated in Vistaland's Php4.8B fixed rate corporate notes issuance. Vistaland is one of the top real estate developers in the Philippines with presence in urban areas all over the country.

August 6, 2012. Considered as an active commercial and consumer area, MPI inaugurated its 53rd branch in Tarlac to establish a wider footprint to reach more customers. The event was attended by key Maybank officials and prominent business owners in the said province.

MPI launched ONE Maybank, the Official Newsletter for Employees, to strengthen its internal communications platform and engage employees in the transformation of the Bank.

SEPTEMBER

September 5, 2012. MPI signed a Memorandum of Agreement with the Philippine Veterans Affairs Office (PVAO) to support its Direct Remittance Pension Servicing System (DRPSS) highlighting the PVAO's 40th founding anniversary. The DRPSS aims to improve the pension benefits delivery for Filipino Veterans.

OCTOBER

October 11, 2012. MPI launched the Maybank Credit Card in the Philippines. After having launched the merchant acquiring business, MPI introduced the Maybank Credit Card with partners Visa and Mastercard to the Philippine media and valued clients.

October 15, 2012. MPI acted as host to delegates from Maybank International Labuan Ltd. (MILL), who conducted a briefing on investing in Labuan for top MPI clients. The MILL delegation was joined by officials from the trade offices and government of Labuan.

NOVEMBER

November 5, 2012. MPI announced the move of its offices to the Maybank Corporate Centre in Bonifacio Global City in Taguig. MPI also opened its new Main Office Branch (MOB), at the Maybank Corporate Centre in Bonifacio Global City in Taguig. The event was attended by officials of the Fort Bonifacio Development Authority, the Malaysian Embassy, and valued clients. The MOB features advanced technologies like Internet Kiosks and iPads for the use of customers as well as a play area for customers' children and a coffee and tea station.

November 12, 2012. Maybank PCEO Dato' Sri Wahid holds a special press conference in the Philippines with MPI and Maybank ATR Kim Eng leaders. The press conference was a prelude to the inauguration of the Maybank Corporate Centre in Taguig, Philippines in January 2013. The press conference delved primarily on the favorable economic conditions in the Philippines expressing confidence in the country as a strategic investment destination.

November 23, 2012. MPI participated in the USD250-M Loan Facility signing ceremony with Travellers International and invited local press to cover the event.

Speeding up to a new route of success

Dato Mohd Salleh Bin HJ Harun
Chairman

2012 was a great year for the Maybank Group and a particularly eventful one for Maybank Philippines, Inc. (MPI). Consistent with its aspiration to be a regional financial services leader, the Group further expanded its regional footprint, which now spans 10 Asian countries with the addition of Laos and Myanmar. The opening of Beijing branch, which enhanced its focus in Greater China, further strengthened its regional presence, thereby providing greater access to its wide array of products and value-added services across the region.

In the local scene, MPI stepped up its efforts to support the Group's aspirations. We strengthened our brand and value proposition to our target customers through the launching of new products in the market, relocation of our corporate headquarters to the new commercial and business district in the country and expansion of our branch network to reach out to more customers. With a vibrant economic landscape providing more impetus, these enabled us to generate record earnings and healthy returns for our various stakeholders.

REVIEW OF THE PHILIPPINE BUSINESS ENVIRONMENT

While the global economy continued to be weighed down by challenges in the advanced economies, the Philippine economy performed strongly during the year. From a lackluster 3.9% in 2011, GDP growth accelerated to a robust 6.6% in 2012, surpassing the government's official target as personal consumption remained strong and all sectors of the economy led by services expanded. The vigorous economic growth was supported by sound macroeconomic fundamentals. Prudent policies kept inflation and interest rates low and peso exchange rate stable. Steady streams of remittances from overseas Filipinos and revenues from business process outsourcing firms as well as narrowing trade deficit, contributed to the strong external payments position. As a testament to the major strides the country achieved on the economic front, all international rating agencies upgraded the country's sovereign rating to one notch below investment grade, with a possibility of an upgrade to investment grade next year.

Looking ahead, we expect the country's brisk pace of growth to be sustained in 2013 especially as midterm elections in May provide further boost to consumption and investments. Also, the economic impact of Public-Private Partnership projects starts kicking in. Analysts and multilateral agencies agree that GDP growth could top 6% for 2013.

REVIEW OF MPI'S PERFORMANCE

MPI's performance in 2012 raised the bar of achievement as new milestones were reached. Net income grew at a healthy pace to reach a new record of P620 million, the highest level ever recorded for a 12-month period since MPI started operations in 1997. ROE climbed to a new high of 11.2%, moving within the industry average. These were achieved on the back of above-market growth in core businesses, supported by various initiatives pursued to strengthen the brand, upgrade distribution and IT infrastructure as well as scaling up the business.

We opened our 54th branch and relocated to our new home in Bonifacio Global City, the new premier commercial and business district in the country. We launched our credit card issuing business in partnership with both Visa and MasterCard, making it possible for our clients to shop on credit. Finally, never forgetting our corporate responsibility, we reached out to other members of the community through our outreach programs. We gave donations to Sagip Kapamilya for typhoon victims in November and December. Maybank C.A.R.E.S also distributed grocery items to the victims of Habagat in Hagonoy, Bulacan and to families of special children of Special Parent for Special Children Centre (SPSCC). The Maybank Foundation also made a donation to Xavier Ecoville of Xavier University, a community center for the victims of Typhoon Sendong in Cagayan de Oro, in December.

For 2013, our clients can look forward to a stronger, bigger and better MPI. Our customers can count on a more visible and accessible MPI as we aggressively expand our footprint to reach out to more clients across the country. There would be stronger brand and value proposition from MPI as we increase our visibility in the media and launch new products and services. Finally, our customers can expect a more dynamic and responsive MPI as implementation of regional initiatives under the Maybank Group IT Transformation Program and automation of business-critical functions shift to higher gear.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I wish to express our thanks to Mr. Spencer Lee for his valuable contribution to MPI as a Director and Board Member since 2006. We wish him all the best in his future endeavours during his retirement days.

We welcome on board Ms. Pollie Sim Sio Hoong as a new Director. As President & CEO of Maybank Singapore, a position she held since 2006, she was instrumental in leading and developing Maybank's consumer banking business in Singapore. Ms. Pollie Sim has over 20 years experience in the banking and financial industry and will certainly be a valuable addition to the MPI Board.

Finally, I would like to recognize and thank our shareholders, our customers and especially our employees for their dedication and support to the bank for the past 15 years. I am confident that MPI will continue to grow bigger and stronger as we do our part in humanizing financial services across Asia.

Ascending the ladder of trust

Herminio M. Famatigan, Jr.
President and Chief Executive Officer

On behalf of the management and staff of Maybank Philippines, Inc., allow me to share with you our operating results for the financial year ended 31 December 2012, which marked my first year of office with Maybank.

I am pleased to report that we ended 2012 on a strong note as our performance improved on many fronts, even exceeding expectations in most key results areas, against a backdrop of a vibrant economic landscape.

Let me run through with you key developments that made our journey last year, particularly in our quest to create value for our various stakeholders, truly remarkable.

DELIVERING VALUE

Earnings rose to a new height, indicating a more solid financial footing. Our full-year Income Before Tax climbed to a new record of P876.9 million in 2012, up 67% on an annualized basis from prior year, benefitting immensely from a last minute surge in earnings. The unprecedented surge was fuelled by substantial fees earned from big-ticket corporate deals as well as sizeable profit realized from sale of acquired assets. Net of applicable income tax, profit amounted to P619.8 million, up 45% on an annualized basis from a year ago.

Profitability strengthened as returns on equity (ROE) and on assets (ROA) improved and moved closer to industry benchmarks. The marked expansion in income lifted ROE and ROA to higher-than-expected levels of 12.5% and 1.2%, respectively, within the industry average.

Stronger bottomline came on the back of sustained improvement in financial fundamentals. Our profit increased significantly at both pre-tax and after-tax levels as operating income expanded at a faster clip than revenue leakages in terms of overheads and loan-loss provisions. Full-year operating income rose 21% on an annualized basis to P2.77 billion from the P1.14 billion recorded for the preceding 6 months as both net interest income and non-interest income recorded double-digit growths. Meanwhile, overheads climbed at a modest pace of 8%. Net interest income, which accounted for the bulk of operating income at 70%, grew 8% while non-interest income expanded at a robust pace of 76% on an annualized basis. Stronger net interest income streams arose mainly from the sustained expansion of interest-earning assets led by loans, indicating a healthy growth in core business.

Robust non-interest income propped up total income to provide comfortable cushion against rising overheads. The marked expansion in non-interest income to P816.4 million from the P232.2 million recorded for the previous 6 months was driven mainly by brisk securities trading and corporate deals. Other non-interest revenue channels that posted healthy growth and that promised to be a steady source of fee income going forward include branch-generated service charges, consumer loan-related fees, transactional banking commissions, credit cards, insurance and trust fees.

UPSCALING BUSINESS

Capitalizing on robust economic activity on the domestic front fueled by a rebound in fixed capital investments and exports notwithstanding a weak external environment, we managed to sustain our business growth momentum, consistent with our thrust to continue building scale.

In fact, beating expectations, the Philippine economy grew at a strong pace of 6.6% in 2012, accelerating from the previous year's lackluster 3.9%, despite the threats posed by a slowly recovering yet still fragile global economy.

This growth of 6.6% was higher than the government's target range of 5.0 - 6.0% and forecast of 6.5%.

Cashing in on the brightening economic landscape, the Philippine banking system continued to gain ground, posting solid asset growth, improved asset quality and good returns on equity.

Operating in these favorable conditions, MPI continued to post solid growth in most key business areas.

Loans sustained month-on-month growth to breach full-year target. Sustaining the trend began at the start of the year, loans advanced month-after-month, accelerating towards the last stretch to end strongly at P31.9 billion, up 35% year-on-year and overshot full-year target. Both consumer and business loans grew at a double-digit pace and exceeded their respective targets.

Asset quality improved as NPL ratio dropped. While NPL level climbed to P839.1 million by yearend, 18% higher than the previous year, NPL ratio dropped to 2.6% from prior year's 3.0% as loans expanded at a faster rate.

Productivity levels rose above targets and industry benchmarks with strong business growth. Loans per branch and deposits per branch grew at a double-digit pace, exceeding targets and surpassing the industry average, due to strong business growth.

Deposit base widened and surpassed full-year target. Deposits likewise grew at a double-digit rate of 25% to P37.2 billion from P29.7 billion a year ago, also breaching budget expectations.

Market standing improved, especially in respect of ROE. Because of sustained business growth, which we pursued at a pace faster than the industry and some of our competitors, thereby contributing to the steady improvement in our profitability position, our market standing improved. This is more pronounced in the area of ROE, where we were ranked 13th among 37 universal and commercial banks by end-December 2012, up from 21st in December 2011, bringing us a step closer to our aspiration to be among the top 10 banks in the country in terms of ROE by 2015.

Collaborated with Maybank ATR Kim Eng (MATRKE) to reap the benefits of synergy. Aside from becoming one of the major depository banks of MATRKE, we have provided CMS solutions to MATRKE group of companies. We have also consummated a number of debt financing deals and accredited MATRKE mutual funds as investment outlets for our assets under management.

STRENGTHENING THE BRAND

Corporate headquarters moved to Bonifacio Global City (BGC). We have taken a big bold step to strengthen our corporate brand and enhance our value proposition to our target customers by transferring our Head Office to a newly-constructed 5-storey building in BGC, the newest premier business and residential district in the country. By bringing together our people under one roof, we expect to strengthen the culture of performance in the organization.

UPGRADING INFRASTRUCTURE

Branch network expanded with the opening of new branches. In a continuing bid to expand our domestic footprint to reach a wider group of customers, we opened two (2) new branches in 2012, one in Tarlac and the other in Bonifacio Global City, which now serves as our Main Office Branch, bringing to 54 the total number of branches by end-2012. The previous Main Office Branch in Legaspi Towers 300 in Malate, Manila was converted into a regular branch.

Product offering was upgraded with the launching of new products and services. The launching of Maybank credit cards under both Visa and MasterCard in 2012, which effectively complemented the credit cards merchant acquiring business introduced a year earlier, marked another milestone in our continued efforts to upgrade our product offering to meet and exceed the expectations of our customers. In three months, we have built a customer base of more than 11,000 cardholders and receivables of P38 million. Aside from credit cards, we have also expanded our trade finance offering with the launching of new products, namely, Export LC Discounting, Trade Loan and Receivable Financing with Recourse, rollout of phase 1 of Trade Connex as part of an initiative to establish a regional trade finance platform and introduction of a facility for rediscounting of trade assets via BSP's rediscounting window.

Gained headway in putting in place a more robust MIS. Central Operations Group has led the way in putting in place a more robust MIS by making daily reports on loan balances and NPL, trade finance and remittance volumes as well as CIV position among others, available to decision-makers in the Bank.

Launched ONE Maybank as a vehicle to enhance internal communication within the organization. Corporate Affairs & Communications has collaborated with Human Capital Management to launch ONE Maybank, MPI's official newsletter, in August 2012 to keep everyone on the same page. By keeping everyone informed, ONE Maybank hopes to keep everyone engaged.

Rolled out cross-posting/overseas job assignment to enhance the critical skills set of our team. We have deployed key talents overseas to assume temporary job assignments and provide them international exposure as part of Human Capital Management's Talent Mobility Program.

Gained recognition for our fixed-income capabilities. We have been recognized and adjudged by Asiamoney in 2012 as No. 2 for Overall Best for Interest Rates, No. 1 for Best for Interest Rates Products and Sales, and No. 3 for Best for Interest Rates Research.

Secured approval from the Maybank Group Board for additional capital infusion of USD100 million to support MPI's business plans. The additional USD100 million, which signified a vote of confidence by the Parent Bank, not only for MPI but also for the country in general, was remitted to MPI in January 2013.

Achieving all of these breakthroughs was by no means a small feat considering the position we were in and the challenges we have had to hurdle to get to where we are today. I owe our latest success to the sheer determination and unbridled passion of the many Maybankers who worked hand-in-hand as a big family to advance the Maybank cause.

PROSPECTS FOR 2013

2013 is shaping up to be an exciting year for the country and for MPI. The country's economic prospects have never been this bright, especially with the better-than-expected economic growth in 2012, likely upgrade to an investment grade sovereign credit rating this year and implementation of PPP projects along the way expected to add more luster. These give the banking community tremendous opportunities to do well this year.

Looking ahead, we remain committed to our long-term aspiration of becoming one of the best managed banks in the country by continuing to strengthen our profitability position and elevating our productivity levels above industry benchmarks.

We intend to achieve this by pursuing our threefold strategic thrusts of strengthening the brand and value proposition, upgrading our support infrastructure and upscaling our business.We intend to enhance our visibility in the media and in the market.

We plan to be more aggressive in expanding our distribution infrastructure by opening at least 25 new branches every year to bring our branch network to at least 200 by 2018. We will go full steam ahead with the implementation of regional IT Transformation Program (ITTP) initiatives and automation of business critical functions.

We will continue to upscale our business by growing our loans and deposits at a faster pace than the industry to increase our market share. We also plan to grow our fee income through treasury trading, corporate deals, transaction banking, branch-generated fees and consumer loan-related fees including credit cards.

Growth in these areas will be mainly supported by a large and growing population, strong personal consumption expenditure, steady credit expansion and growing inter- and intra-ASEAN trade.

We will continue pursuing initiatives to achieve better synergy with MATRKE especially in the area of equity and debt financing. We are targeting to become the settlement bank for MATRKE's stockbroking clients by 2013.

Making all of these happen will no doubt be a daunting task given our limited resources but certainly not insurmountable if we can harness all our resources properly, work together as a team and leverage on each other's strengths.

With your continued support and dedication I believe we can make 2013 a banner year for MPI.

ACKNOWLEDGEMENT

In behalf of the management, I sincerely thank our Board of Directors and our shareholders for their continued trust, wisdom and guidance.

I also wish to recognize and commend the efforts of my predecessors, especially Mr. Amos Ong, who were instrumental in laying down the groundworks that allowed MPI to move to a higher plane of growth and profitability.

Once again, I would like to acknowledge and commend the efforts of the Bank's management and employees. Thank you for giving your utmost to move the Bank forward in pursuit of our collective goals and objectives.

Finally, I wish to extend my sincere gratitude and express my heartfelt appreciation for our customers, who have stayed and banked with us for the past 15 years.

You have seen how the Bank has transformed through the years to be able to serve you better.

You may count on us to continue this culture of continuous improvement as we do our share in humanising financial services across Asia.

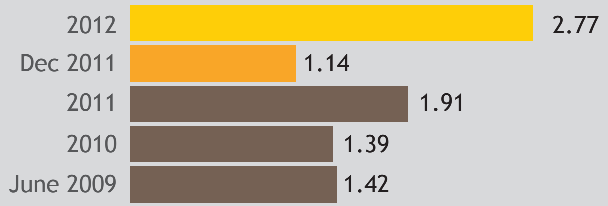
Financial Highlights

(Amounts in Million Pesos unless otherwise indicated)

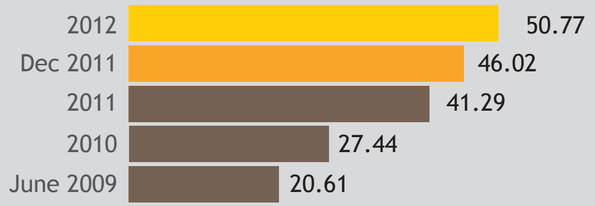
Key Performance Indicators	2009	30 June 2010 (12 months)	2011	31 December 2011 (6 months)	31 December 2012 (12 months)
Operating Results for the Year					
Income Before Income Tax	97.1	91.1	181.2	262.2	**876.9**
Net Income*	49.5	36.7	107.1	213.0	**619.8**
Return on Average Equity	1.87%	1.36%	3.42%	4.28%	**12.48%**
Return on Average Assets	0.25%	0.15%	0.32%	0.49%	**1.23%**
Financial Condition at Year End					
Total Assets	20,612.7	27,439.5	41,286.0	41,018.1	**50,768.5**
Loans and Receivables**	12,180.5	15,073.4	20,368.0	24,207.8	**32,449.3**
Investments	2,402.9	4,347.9	11,847.4	14,254.2	**8,863.4**
Deposit Liabilities	15,499.0	22,164.2	26,485.1	29,675.8	**37,163.3**
Number of Employees	728	764	845	880	**944**
Number of Branches	45	50	50	52	**54**
Number of ATMs	35	53	54	56	**66**

* *See accompanying Notes to Financial Statements*
** *Includes allowance for probable losses*

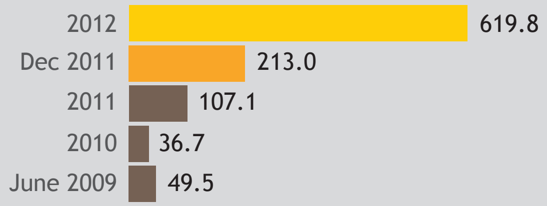
Operating Income P2.77 billion



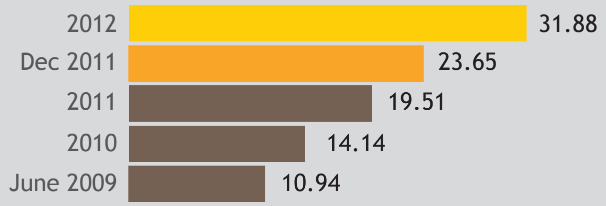
Assets P50.77 billion



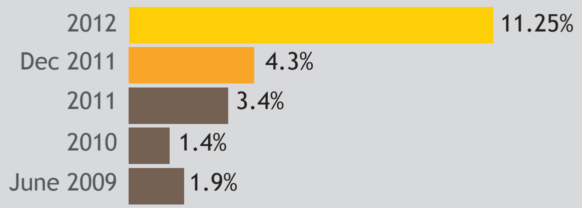
Net Income P619.8 million



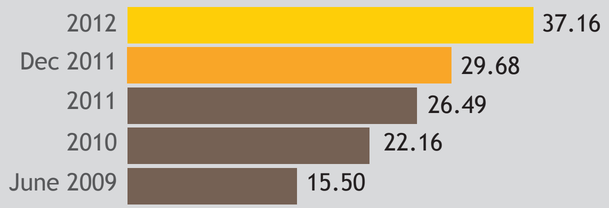
Loans P31.88 billion



Return on Equity 11.25%



Deposits P37.16 billion



Passion for doing the right action

Taking inspiration and guidance from our parent bank, Maybank Philippines, Inc. (MPI) has been conducting its business with a conscious and deliberate effort to create a difference in the communities where we have presence. Through various social initiatives and an active employee volunteerism programme, we believe we can create a sustainable and better tomorrow for all – our little contribution to humanising financial services.

MARCH

March 8, 2012. MPI participated in the International Women's Day Celebration held in Menara Maybank via video conference.

MAY

May 26, 2012. MPI, through its MPI Passion Club CSR Pillar called Maybank C.A.R.E.S., conducted a basketball sports clinic for 30 kids of Unang Hakbang Foundation held at the Dumlao Gym. Volunteer Maybankers shared basketball basics and skills drills, while MPI donated four basketballs to the Foundation in support of its sports programs for the street children.

AUGUST

August 30, 2012. Maybank Foundation, through MPI, firmed up its donation for a Community Center in Xavier University's Xavier Ecoville, a model resettlement community for 550 displaced families affected by Typhoon Sendong in Cagayan de Oro City. The Community Center will provide a venue for community activities designed to uplift the families and help them integrate back to society.

SEPTEMBER

September 1, 2012. MPI, through its internal Maybank C.A.R.E.S. Program, turned over donations of grocery packs to families of special children attending the Special Parents for Special Child Center (SPSCC) in Barangay San Sebastian, Hagonoy, Bulacan who were affected by the severe flooding brought about by the heavy monsoon rains (Habagat) in early-August 2012.

September 5, 2012. Collected donations were handed over to the outsourced utility personnel affected by the severe flooding in early-August 2012, in a simple ceremony held at the MPI Head Office.

September 22, 2012. MPI, in partnership with Maybank ATRKE, participated in the Global CR Day 2012 with Flu Vaccination Drive at Bagong Silang Elementary School. A total of 437 Grades 5 and 6 students benefitted from the campaign.

NOVEMBER

November 12, 2012. Maybank Foundation, through MPI, donated USD100,000 to ABS-CBN Foundation's Sagip Kapamilya for the victims of the Habagat which ravaged areas in Metro Manila and provinces affecting hundreds of thousand families. The donation was received by ABS-CBN Sagip Kapamilya Executive Director Tina Monzon-Palma who announced that they will provide updates on the disbursement of the donation.

DECEMBER

December 4, 2012. MPI PCEO Herminio M. Famatigan, Jr. was invited to the UP Career Assistance Program to speak about the youth's role in nation-building. The said program was held at the College of Business Administration at the University of the Philippines.

December 8, 2012. Maybank C.A.R.E.S. held a Christmas Party for the children of Unang Hakbang Foundation. The party was attended by 30 kids and each received a pair of running shoes.

December 12, 2012. Xavier Ecoville opened the Maybank Community Center — a contribution of the Maybank Foundation which will be a venue for sustainable community programs and activity — in Cagayan de Oro. The blessing ceremony was attended by MPI Corporate Affairs and MPI Cagayan de Oro branch officers.

December 18, 2012. MPI donates Php500,000 to ABS-CBN Sagip Kapamilya for Typhoon Pablo victims. Typhoon Pablo was considered as the strongest tropical cyclone to hit Mindanao, an island in southern Philippines.

Exemplifying a culture of integrity

Maybank Philippines, Incorporated believes that corporate governance is crucial in enhancing shareholder value, establishing customer trust and loyalty as well as strengthening employee commitment to realize the Bank's aspirations of becoming a leading financial services provider in the target markets and communities it commits to serve.

The basic approach of MPI's Board to good corporate governance, however, goes beyond mere regulatory compliance. On a deeper level, the Board seeks to institutionalize a culture of excellence founded on the core values of integrity, fairness, accountability and transparency that emanates from the top and permeates the entire organization.

MPI recognizes good corporate governance first and foremost as a corporate mandate. To ensure compliance, we have incorporated in our Manual on Corporate Governance, where appropriate, the recommendations and requirements of the regulators as set forth in the Securities and Exchange Commission's Code of Corporate Governance and the relevant issuances of the Bangko Sentral ng Pilipinas (BSP) on corporate governance. We especially laud and support the efforts of the BSP in promoting corporate governance within the banking sector by setting the tone of governance from the top and enhancing transparency, disclosure and financial reporting to empower the Board to make smart risk decisions that promote the interests of the stakeholders. We have also embraced the Corporate Governance Scorecard (CGS) that BSP put in place in partnership with the Institute of Corporate Directors. Through the CGS, we were able to examine and enhance our governance model based on the best practices in corporate governance.

Championing corporate governance at MPI, however, goes beyond mere regulatory compliance. Because we believe that sound corporate governance is the bedrock on which the trust of our shareholders rests, the Board of Directors, the management and the employees of MPI reaffirm our commitment to uphold the principles of good corporate governance at all times and to adopt its best practices whenever and wherever applicable. We strive to institutionalize a culture that upholds high levels of integrity, fairness, accountability and transparency across all fronts and at all levels of the organization so that we will be able to deliver better value to our various stakeholders — our shareholders, our customers, our partners, our people and our community.

BOARD GOVERNANCE

Composition of the Board of Directors

Consistent with the provisions set forth in its latest Amended Articles of Incorporation dated September 3, 2010 and By-Laws dated September 9, 2011, the MPI Board of Directors is composed of seven (7) members. The current composition of the Board has a good balance of executives and non-executives, including independent non-executive directors, and has a clear division of responsibilities such that no individual or small group of individuals can dominate the Board's decision-making.

Roles and Responsibilities of the Chairman and the Chief Executive Officer

There is a clear separation of roles between the Chairman of the Board and the Chief Executive Officer to ensure equitable distribution of responsibilities and accountabilities as well as to provide proper check and balance of power and authority. This check-and-balance mechanism helps to ensure that independent perspectives and judgments are properly heard in the Board.

The Chairman of the Board is a non-executive and together with the members of the Board is responsible for supervising the Bank's operations and ensuring its compliance with all the tenets of corporate governance.

The Chief Executive Officer, in turn, is an executive and is primarily responsible for managing the Bank's day-to-day operations. His performance is evaluated and rewarded by the Board based on his Balanced Scorecard. He chairs the Management Committee, Asset and Liability Committee, Credit Committee, Staff Committee, Steering Committee and Audit Exception Review Committee.

Duties, Functions and Responsibilities

The Board of Directors is at the top of MPI's corporate governance structure. As the supreme governing authority, the Board wields ultimate power over Management, which runs the Bank on a day-to-day basis but reports to the Board for overall guidance.

The Board's primary responsibility is to foster the long-term success of the Bank and secure its sustained competitiveness in a manner characterized by transparency, accountability and fairness, to promote the best interest of its stakeholders. Moreover, on the Board's shoulders rests the responsibility of formulating the Bank's vision and mission, strategic goals and objectives, as well as policies and procedures that guide and direct the Bank's activities.

The Board of Directors acts with autonomy and independence as it seeks to live up to its mandate of enhancing shareholder value, championing corporate governance and overseeing the Bank's management. The Board enjoys unlimited access to all levels of Management at all times. The Directors are allowed to seek external professional advice on any issue they deem necessary.

To be effective, the Board of Directors subscribes to the code of proper practices for directors as proposed by the Institute of Corporate Directors, which is based on the core principles of integrity, fairness, accountability and transparency.

Board Meetings and Quorum Requirement

The Board meets once every two (2) months. To achieve a quorum, at least five (5) members must be present. During the financial year ending December 31, 2012, the Board met six (6) times and met the quorum requirement for said meetings.

Name of Director	No. of Meetings Attended
Dato' Mohd Salleh Bin HJ Harun (Chairman)	6/6
Mr. Abdul Farid Alias	4/6
Mr. Spencer Lee Tien Chye	6/6
Mr. Herminio M. Famatigan Jr.*	4/4
Mr. Andres Gatmaitan	6/6
Mr. Felix Antonio M. Andal	6/6
Mr. Aloysius B. Colayco	6/6
Mr. Ong Seet-Joon**	2/2

** Replaced Mr. Ong Seet-Joon effective March 15, 2012*
***Resigned effective March 15, 2012*

Appointments to the Board

Appointments are based on the recommendation of the Nomination/Corporate Governance Committee which employs a set of selection criteria. Every year, the members are required, by rotation, to offer themselves for reelection. Each nomination is confirmed by the shareholders during the annual shareholders' meeting held after the end of the financial year.

Remuneration of Directors and Officers

Directors receive a per diem allowance for meetings attended. In addition, non-Philippine resident directors are also entitled to allowance for transportation and hotel accommodations. Fees paid to directors during the preceding financial year amounted to P5.34M, lower than the P17.33M incurred the year before, as MPI aligned its allowances with the adjustments made within Maybank Group.

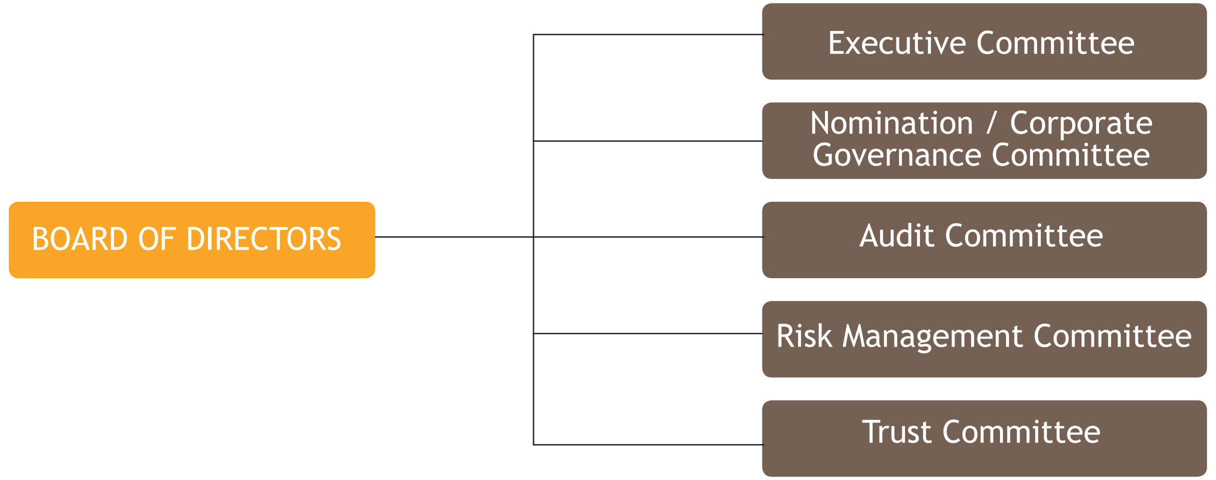
For its officers, including senior executives, MPI has adopted a remuneration scheme that is at par with the industry. Basic compensation and benefits of its officers are determined by their placement in the different job bands. Bonuses are performance-based, and are thus linked to predetermined performance hurdles as stated in the Balanced Scorecard of each officer. However, to attract and retain talents, MPI has also put in place a talent management scheme that seeks to remunerate high-potential and high-performing officers with compensation commensurate to the value they deliver to the organization.

Training of Directors

In compliance with the requirements of the Bangko Sentral ng Pilipinas, all members of the Board have attended the mandatory training on corporate governance.

Board Committees

MPI has five (5) specialized Board-level committees, namely, the Executive Committee, Nomination/Corporate Governance Committee, Audit Committee, Risk Management Committee and Trust Committee. These committees were constituted to assist the Board of Directors in discharging its duties and responsibilities particularly within the bounds of effective corporate governance.



The Executive Committee has the power to approve and act upon all matters affecting the Bank between meetings of the Board.

The Executive Committee exercises all powers of the Board of Directors except on certain matters such as, but not limited to, approval of business plans, including annual operating and capital budgets and any matter for which the Philippine Corporation Code requires the approval of both the Board of Directors and shareholders of a corporation as conditions precedent for such a matter to become a valid corporate act.

The composition of the Executive Committee is as follows:

Name of Director
Mr. Abdul Farid Alias (Chairman)
Mr. Herminio M. Famatigan Jr.*
Mr. Aloysius B. Colayco
Mr. Felix Antonio M. Andal

** Replaced Mr. Ong Seet-Joon effective March 15, 2012*

No meeting of the Executive Committee was convened for financial year 2011-2012.

The Nomination/Corporate Governance Committee provides an assessment of the Board's effectiveness, directs the process of reviewing and replacing Board Members and manages the general composition of the Board as to size, skill and balance. The Committee also ensures that the Bank's remuneration is sufficient and reasonable, and linked to corporate and individual performance.

Members of the Committee and their attendance for the year are as follows:

Name of Director	No. of Meetings Attended
Mr. Aloysius B. Colayco (Chairman)***	2/2
Dato' Mohd Salleh Bin Hj Harun (Chairman)****	2/2
Mr. Spencer Lee Tien Chye	2/2
Mr. Abdul Farid Alias	2/2
Mr. Felix Antonio M. Andal	2/2

****Appointed Chairman on September 7, 2012*

******Held Chairmanship position from January, 2012 to September 7, 2012*

The Audit Committee of the Board (ACB) assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Bank's process for monitoring compliance with laws and regulations and the code of conduct.

The Board has empowered the ACB to investigate any activity or matter within its sphere of influence, obtain external independent professional advice, legal or otherwise as deemed necessary, and maintain direct communication channels with external and internal auditors and with the Senior Management of the Bank and its affiliates.

To be able to discharge these functions effectively, the ACB has also been empowered to have the resources which are required to perform its duties and unlimited access to all information and documents relevant to its activities.

Members of the Committee and their attendance are as follows:

Name of Director	No. of Meetings Attended
Mr. Felix Antonio M. Andal (Chairman)	6/6
Mr. Spencer Lee Tien Chye	6/6
Mr. Aloysius B. Colayco	6/6

The Risk Management Committee provides oversight of the Board's activities in managing the Bank's credit, market, liquidity, operational, legal and other risk exposures.

Members of the Committee and their attendance are as follows:

Name of Director	No. of Meetings Attended
Mr. Spencer Lee Tien Chye (Chairman)	6/6
Mr. Felix Antonio M. Andal	6/6
Mr. Abdul Farid Alias	4/6
Mr. Aloysius B. Colayco	6/6
Mr. Herminio M. Famatigan Jr.*	4/4
Mr. Ong Seet Joon**	2/2

** Replaced Mr. Ong Seet-Joon effective March 15, 2012*

*** Resigned effective March 15, 2012*

The Trust Committee provides oversight of the Bank's activities in managing its trust business.

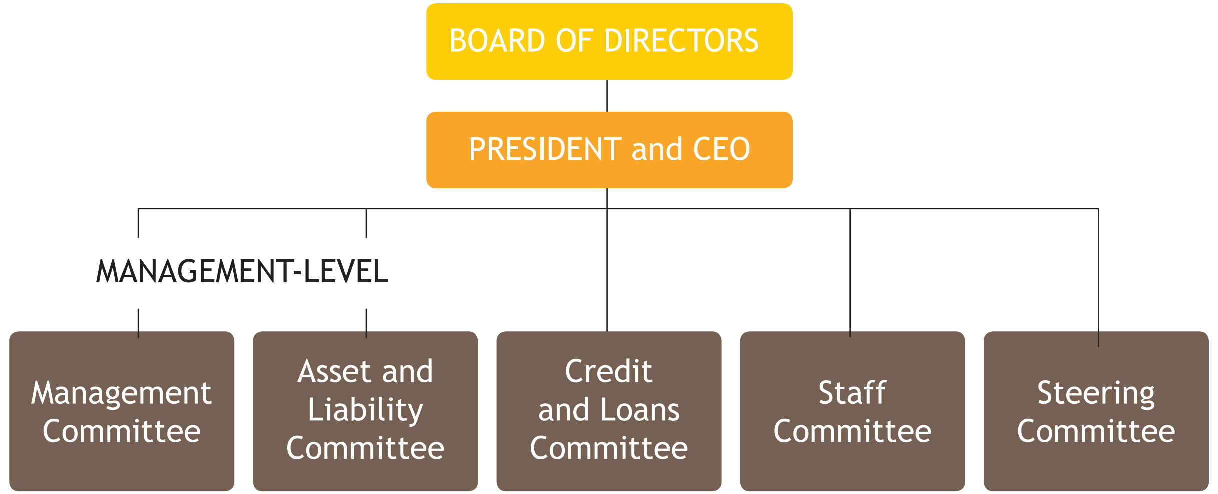
Members of the Committee and their attendance are as follows:

Name of Director	No. of Meetings Attended
Dato' Mohd Salleh Bin Hj Harun (Chairman)	6/6
Mr. Herminio M. Famatigan Jr.*	4/4
Mr. Andres Gatmaitan	6/6
Mr. Abdul Farid Alias	4/6
Mr. Alan Jay Avila	6/6
Mr. Ong Seet-Joon**	2/2

** Replaced Mr. Ong Seet-Joon effective March 15, 2012*

***Resigned effective March 15, 2012*

The Bank also has five (5) management-level committees tasked to support its Management. These include Management Committee, Asset & Liability Management, Credit & Loans, Steering, Staff and Audit Exception Review Committees.



ACCOUNTABILITY AND AUDIT

Financial Reporting and Disclosure

The Board is primarily accountable to the Bank's shareholders. In presenting the annual audited and quarterly financial statements, the Board aspires to provide its shareholders with a balanced and understandable assessment of the Bank's performance, position and prospects.

For the financial year ended December 31, 2012, the Bank's financial statements have been prepared in full compliance with the Philippine Financial Reporting Standards (PFRS).

MPI recognizes the need for regular and timely reports of the Bank's performance. Hence, in addition to the annual report and in fulfillment of the disclosure requirements of the Bangko Sentral ng Pilipinas, the Bank publishes its quarterly statements of condition in newspapers of general circulation.

Internal Controls

The Board has the overall responsibility of ensuring that proper and adequate internal controls are in place to safeguard the Bank's assets and protect the interests of its stakeholders. The Board sees to it that internal audit examinations include the evaluation of the adequacy and effectiveness of internal controls covering financial, operational, compliance and risk management matters.

Compliance System

Compliance Management promotes awareness and compliance with the regulatory requirements of BSP, AML Council, SEC, and other governing bodies among the various units within the Bank through dissemination of new regulations, conduct of Anti-Money Laundering Training programs and compliance briefing. It conducts regular monitoring and reporting of compliance with statutory and regulatory requirements.

Compliance Management's principles and functional responsibilities are embodied in the Compliance Management Charter and the Compliance Operations Manual.

Relationship with Auditors

The Board maintains a transparent and professional relationship with the Bank's external and internal auditors. Through the Audit Committee, it recommends to shareholders a duly accredited external auditor to undertake an independent audit, which is up for rotation every five (5) years as stipulated in our manual.

Code of Discipline

MPI has a Code of Discipline to guide all employees in discharging their duties and in dealing with customers, colleagues and public authorities. It also sets out the standards of good banking practice that all employees must observe. Specifically, the Code seeks to:

- Uphold the good name of Maybank and to maintain public confidence in Maybank;
- Maintain an impartial relationship between Maybank and its customers;
- Uphold the high standards of personal integrity and professionalism of Maybank employees;
- Maintain independence of judgment and action by consciously disclosing and avoiding any possible conflict of interest;
- Encourage the employees to share in the creation of a more just and humane society.

The Code, which was updated and reissued in August 2010 in booklet form, is communicated to all our employees who signified through a confirmation form that they have read and understood the document.

Standing firm on solid grounds

Notwithstanding the slowdown in the overseas markets, the Philippines posted a tremendous growth for 2012 with a broad-based growth of 6.5 percent in its Gross Domestic Product (GDP).

The growth in the country's economy has paved the way for a larger opportunity for MPI to expand its business. Simultaneously, the complexities and risks within and outside the organization's operating environment also continued to intensify. Challenges have also increased with the heightened financial regulatory scrutiny, evolution of financial products and processes, and rising political concerns in different markets worldwide.

To continually protect and prepare the Bank ahead of the challenges, the Management together with the Board warrants the continuous improvement in the Risk Management Function.

The mission of MPI's Risk Management Function is to develop measures to ensure that the risks inherent in the Bank's activities are properly identified, measured, managed and controlled under both business-as-usual conditions and stress events. It is guided by the following general objectives:

- To promote a risk management culture and a philosophy of risk awareness;
- To assist our risk-taking business and operating units in understanding and measuring risk/return profiles;
- To develop risk and control infrastructure;
- To develop, disseminate and maintain formalized risk policies, frameworks, methodologies, and tools; and,
- To provide an effective means of differentiating the degree of risk in the various business portfolios of the Bank.

KEY HIGHLIGHTS FOR 2012

- Expanded the risk management resources by filling in risk management vacancies with competitive talents
- Continued to strengthen our risk strategy and governance to embed and enhance our risk culture and management across the organization
- Improved risk monitoring through the transformation and implementation of various risk management tools such as the International Risk Rating Scorecard (IRRS) and Global Treasury Risk Management System (Kondor)
- Enhanced the enterprise-wide risk monitoring and reporting by implementing and introducing revisions in the processes and reports
- Streamlined MPI's Risk Management policies and processes with the Parent Bank
- Strengthened relationship with risk counterparts and business units

MAYBANK'S SEVEN BROAD PRINCIPLES OF RISK MANAGEMENT

The Seven Broad Principles define the key principles on accountability, independence, structure and scope.

1. The risk management approach is premised on three lines of defense – Risk Taking Units, Risk Control Units and Internal Audit.
2. The Risk Taking Units are responsible for day-to-day management of risks inherent in their business activities while the Risk Control Units, specifically Risk Management is responsible for setting the Risk Management Framework and developing tools and methodologies for the identification, measurement, monitoring, control and pricing of risks. Complementing this is the Internal Audit which provides independent assurance of the effectiveness of the risk management approach.
3. Risk Management provides risk oversight for the major risk categories including credit risk, market risk, liquidity risk, operational risk and other material risks.
4. Risk Management ensures that core risk policies of the Group are consistent, sets the Risk Appetite and facilitates the implementation of an integrated risk-adjusted measurement framework.
5. Risk Management is functionally and organizationally independent of business divisions and other risk takers in the Group.

6. The Board through the Risk Management Committee (RMC) maintains overall responsibility for risk oversight within the Bank.
7. Risk Management (through the Chief Risk Officer) is responsible for the execution of various risk policies and related decisions of the Board.

RISK MANAGEMENT ORGANIZATIONAL STRUCTURE

Board of Directors (BOD)
The Board of Directors is the Group's ultimate governing body, which has overall risk oversight responsibility. It approves the risk management framework, risk appetite, plans and performance targets for the Risk Management Group, the appointment of senior officers, delegation of authorities for credit and other risks, and the establishment of effective control.

Risk Management Committee (RMC)
The RMC is a dedicated Board Committee responsible for the risk oversight function within the Group. It is principally responsible for formulating policies and frameworks for the various risks.

Management Committee (ManCom)
The Management Committee is responsible for the review and to give advice to the RMC/Board on issues, practices and enhancements of the risk management policies; impact of risk measures on business strategies; and changes in Bank's risk profile. ManCom is also responsible for the review and to give advice to the RMC/Board on the allocation of capital across business units and product lines covering market, credit, operational risk and other material risks.

Asset and Liability Management Committee (ALCO)
The ALCO is a Management Committee responsible for recommending broad strategies, policies and frameworks to identify, measure, monitor, manage and control the Market and Liquidity risks to the RMC/Board for approval. It is also responsible for assets and liabilities management.

Risk Governance Structure in Maybank

Board of Directors (BOD)

Risk Management Committee (RMC)

Management Committee (ManCom)	Asset & Liability Management Committee (ALCO)	Credit Committee (CC)

Chief Risk Officer

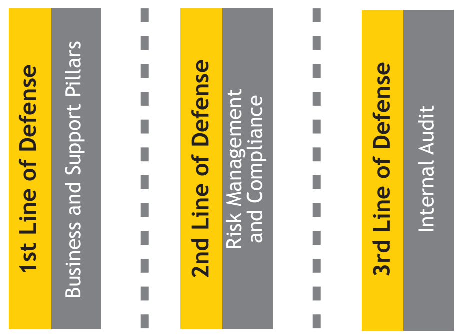
Regional Group Credit Management (RGCM)	Credit Risk Management (CRM)	Market Risk Management (MRM)	Operational Risk Management (ORM)	Enterprise Risk Management (ERM)

Credit Committee (CC)
The Credit Committee is responsible for the management of credit risk and asset quality; approval of credit policies, frameworks, tools and methodologies.

Risk Management Group
The Risk Management Group composed of the Regional Group Credit Risk Management (RGCM), Credit Risk Management (CRM), Market Risk Management (MRM), Operational Risk Management (ORM) and Enterprise Risk Management (ERM) is headed by the Chief Risk Officer.

- The *Regional Group Credit Management (RGCM)* is responsible for the conduct of independent pre-approval risk evaluation of credit and credit-related proposals.
- The *Credit Risk Management (CRM)* is responsible for the formulation of frameworks, methodologies, policies and tools for the identification, monitoring, reporting and controlling of Credit Risk. CRM also supports the Credit Committee.
- The *Market Risk Management (MRM)* is responsible for the formulation of frameworks, methodologies, policies and tools for the identification, monitoring, reporting and controlling of Market Risk and Liquidity Risk. MRM acts as the secretariat for the ALCO.
- The *Operational Risk Management (ORM)* is responsible for the formulation of frameworks, methodologies, policies and tools for the identification, monitoring, reporting and controlling of Operational Risk. It also develops the Bank's Business Continuity Plan and conducts monitoring of Fraud Risks. ORM systems such as the Risk Control Self-Assessment (RCSA), and Incident Management and Data Collection (IMDC) are also being maintained by ORM.
- The *Enterprise Risk Management (ERM)* is responsible for the formulation of frameworks, methodologies, policies and tools for the identification, monitoring, reporting and controlling of all other material risks faced by the Bank. ERM monitors the overall risks of the Bank at an Enterprise-wide level landscape. ERM drives the Bank's Internal Capital Adequacy Assessment Process (ICAAP).

THREE LINES OF DEFENSE CONCEPT IN MANAGING RISKS ACROSS MPI



The **1st Line of Defense** is composed of the risk taking units (business and support pillars). Primary responsibility of the 1st Line is the management of inherent risks within the day-to-day activities.

The **2nd Line of Defense** is composed of Risk Management and Compliance. Risk Management Group is responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring, control and pricing of risks.

The **3rd Line of Defense** is composed of the Internal Audit which provides an independent assurance of the effectiveness of the risk management approach.

ALIGNMENT OF RISK FUNCTION

5-Level Policy Architecture

1	Level 1 Maybank Group (Parent Bank) Framework
2	Level 2 Maybank Group (Parent Bank) Policy
3	Level 3 Maybank Philippines Inc. Specific Policy
4	Level 4 Maybank (Parent Bank) Procedure
5	Level 5 Maybank Philippines Inc. Specific Procedure

Maybank Philippines has adopted the 5-level Policy Architecture design of the Parent Bank. The objective of the strategy is to ensure alignment of Risk Function within the different subsidiaries of the Maybank Group.

The Risk Management Group seeks to streamline the local risk function in MPI as the risk counterparts in the Parent Bank continues to enhance its Risk Management frameworks, policies and procedures.

DATO' MOHD SALLEH BIN HJ HARUN, Chairman

Dato' Salleh was appointed as Director and Vice Chairman of Maybank Group on November 18, 2009; in Maybank Philippines he was officially appointed as Chairman of the Board on January 22, 2010.

He started his career as Senior Accountant with the Federal Treasury between 1971 and 1974 prior to joining the Maybank Group in 1974 as an Investment Manager in Aseambankers Malaysia Berhad (now known as Maybank Investment Bank Berhad). He then moved to Bank Rakyat for a short stint in 1978 but thereafter, Dato' Salleh returned to the Maybank Group where he served in various senior capacities culminating as Executive Director of Maybank from 1994 to 2000. He was then appointed as a Deputy Governor of Bank Negara Malaysia, a post he held up to 2004. Since then, he had held directorships in the RHB Group including as Chairman of RHB Insurance Berhad until November 2009.

His current directorships in companies within the Maybank Group include being Chairman of Maybank Ageas Holdings Berhad (formerly known as Mayban Fortis Holdings Berhad), Etiqa Insurance Berhad and Etiqa Takaful Berhad. He is also a Director of Scicom (MSC) Berhad, Asia Capital Reinsurance Malaysia Sdn Bhd and FIDE Forum wef August 3, 2012.

DATUK ABDUL FARID ALIAS, Director

Datuk Abdul Farid Alias was appointed as Director of Maybank Philippines in September 2011. He is a member of the Board of Directors of Maybank Investment Bank Berhad, Maybank International Labuan Limited, Kim Eng Holdings Ltd., MCB Bank Ltd Pakistan and Maybank Asset Management Sdn Bhd.

Datuk Farid has over 20 years of experience in investment banking and capital markets. He began as an Assistant Manager at Aseambankers Malaysia (now Maybank Investment Bank Berhad) from 1992 to 1994, and has served in various merchant and investment banks such as Schroders from 1994 to 1995 and Malaysia International Merchant Bankers Berhad from 1996 to 1997. In 1997, he became Vice President of Investment in JP Morgan and was Director of Investments for Khazanah Nasion Berhad from 2005 to 2008. In Khazanah, he sat on the Board of Commissioners/Directors of several publicly listed companies.

SPENCER LEE TIEN CHYE, Director

Spencer Lee was appointed as Director of Maybank Philippines in September 2002. He has served Maybank for more than 30 years, joining Maybank Group in 1975. Spencer has worked in various executive capacities including positions such as Head of Consumer Banking (2004-2008), Head of International Business at Maybank and Country Head of Maybank Singapore (2002-2004).

Spencer Lee Tien Chye is a fellow of the Institute of Chartered Accountants (England and Wales), a member of the Malaysian Institute of Certified Public Accountants and a member of the Malaysian Institute of Accountants.

HERMINIO M. FAMATIGAN, JR., Director

Herminio M. Famatigan Jr.'s career in banking and finance spans over 30 years, with vast experience in corporate lending, retail banking, branch administration, distribution and all facets of consumer finance. Starting with BPI Leasing in 1980 as an Account Officer, Mr. Famatigan became Senior Business Development Officer at Citytrust in 1992. He then became Acting President of RCBC Bankard in 2001 before assuming the position of Senior Vice President and Head of Consumer Banking Group at UCPB in 2003.

Prior to joining MPI, Mr. Famatigan served as President and CEO of Premiere Development Bank from 2007-2012. He contributed to enhancing the bank's competitiveness as well raising Premiere Bank's profile as a significant competitor in the Consumer and SME Finance sector.

Mr. Famitigan is the first local President and CEO of Maybank Philippines, Inc., assuming the post in March 2012.

ATTY. ANDRES G. GATMAITAN, Director

Atty. Andres G. Gatmaitan was appointed as Director of Maybank Philippines Inc. in September 2011. His current directorships in companies include Holcim Philippines, Convergys Phils. Inc, Triumph International Philippines, Benguet Corporation and St. Agen Holdings, Director of JVS Worldwide Inc.

Prior to joining Maybank Philippines, he was a director of the SM Development Corporation since 2011, Phelps Dodge Philippines since 2010, Iligan Cement Corporation since 1999, and BHP Engineering Philippines Inc. where he was President and Director since 1999.

ALOYSIUS B. COLAYCO, Director

Aloysius B. Colayco was appointed as Director of Maybank Philippines Inc. in 2010. Since 1994, he has served as director to Jardine Matheson Group, Colliers Philippines, Mandarin Manila Hotel, Jardine Direct Co. Inc, Jardin Distribution Inc., Jardine Lloyd Thompson, Pasig Land Corporation and Gaamon Philippines Inc.

Mr. Colayco started out as a Senior Assistant Vice President at PHILAMLIFE in 1977, then moved on as an Assistant Treasurer at Jardine Matheson Group in 1980, after which he returned to PHILAMLIFE as Chief Investment Officer in 1982. He then became President of AIG Investment Corporation in 1986 and Director at Genesis Emerging Market fund London in 1989. He also served as Director at Aboitiz Transport Group in 2003, as Chairman in Argosy Finance Corporation in 2009 and Director in TVI Pacific in 2011.

FELIX ANTONIO M. ANDAL, Director

Felix M. Andal was appointed as Director of Maybank Philippines Inc. in 2007. He is currently the Managing Director in CHESWICK Inc. and the President of AYME Corporation since 2004.

Mr. Andal began working as a Section Manager at the Finance Department of Procter & Gamble PMC in 1966. In 1971, he became Vice President of Corplan for Far East Bank & Trust Co. while sharing his expertise as a Professor in De La Salle University. In the same year, he became President of Nilfisk Philippines Inc.

Mr. Andal attained Directorship in corporations from 1974 to 1977 such as Beneficial Life Insurance Company, Mutual Reality Corp., Consolidated Electronics Inc. and CEO of FMF Development Corp. Among other companies were Pacific United Merchant Corp as President from 1987 to 2002, Bremenn Industries Inc. as President from 1988 to 2004 and Nissan Central Manila Inc. as Executive Vice President from 1989 to 2003.

The Leadership Team **Management Committee**

Herminio M. Famatigan, Jr.
President & Chief Executive Officer

Arsenia L. Amigo
SVP & Head, Services

Richard C. Lim
SVP & Head, Retail Business

Dandy L. Rivera
SVP & Head, Central Operations

Ng Yok Chin
EVP & Chief Risk Officer

Manuel A. Castañeda III
SVP & Head, Global Banking

Arlene Joan T. Agustin
SVP & Head,
Investment & Asset Management

Jose A. Morales III
SVP & Chief Audit Executive

Fides V. Tanay
SVP & Head, Human Capital

HERMINIO M. FAMATIGAN, JR.
President and Chief Executive Officer

Herminio M. Famatigan Jr.'s career in banking and finance spans over 30 years, with vast experience in corporate lending, retail banking, branch administration, distribution and all facets of consumer finance. Starting with BPI Leasing in 1980 as an Account Officer, Mr. Famatigan became Senior Business Development Officer at Citytrust in 1992. He then became Acting President of RCBC Bankard in 2001 before assuming the position of Senior Vice President and Head of Consumer Banking Group at UCPB in 2003.

Prior to joining MPI, Mr. Famatigan served as President and CEO of Premiere Development Bank from 2007-2012. He contributed to enhancing the bank's competitiveness as well raising Premiere Bank's profile as a significant competitor in the Consumer and SME Finance sector.

Mr. Famitigan is the first local President and CEO of Maybank Philippines, Inc., assuming the post in March 2012.

ARSENIA L. AMIGO
SVP and Head, Services

Arsenia L. Amigo was appointed Senior Vice President and Head for Services Group in 2008. Her experience in banking spans over 38 years with in-depth expertise in Internal Audit, Accounting, Controllership, Systems, Management and Services.

Zeny Amigo is the first female auditor in Maybank. She was immersed in different disciplines within the bank long before it was known as Maybank Philippines. From 1975-2006, her roles include Section Chief for Internal Audit from 1977-1979, Examiner II from 1979-1984,Acting Audit Supervisor from 1984-1985, Audit Supervisor from 1985-1987 and Audit Supervisor and Assistant Manager from 1987 to 1991, Head and Assistant Manager to the Accounting Department from 1991-1992, Manager to the Branch Controller Unit from 1992-1994, Division Head and Manager to Systems and Methods Division in 1994, OIC and Senior Manager to the Controllership Department from 1994- 1999, Head and Assistant Vice President to the Accounting Department from 1999-2003, Head and Assistant Vice President for Project Management from 2003-2004 and as Head and Vice President for Project Management from 2004-2006.

Zeny was attached to the services group in 2006 as Acting Head and Vice President of the Services Group, eventually becoming Senior Vice President and Head in 2008-present.

RICHARD C. LIM
SVP and Head, Retail Business

Richard C. Lim was appointed Senior Vice President in July 1, 2001. He has over 21 years of banking experience with in-depth expertise in retail finance, retail marketing management and consumer sales.

He began his career as a Clerical Staff member for China Bank from 1991-1992, moving on to become a Marketing Associate for Urban Bank in 1993, then as Branch Marketing Officer for Philam Savings Bank in 1996. Richard also served as Management Consultant for Zircon Computers Direct in 1999 before he entered Maybank Philippines as Branch Head of Binondo Branch in 2000.

In 2003, Richard was appointed Head of Retail Marketing Management and concurrent Head for Consumer Sales starting 2005. He was later on promoted to Acting Head for Retail Finance Services from 2008-2009 before assuming headship of the Head of Retail Banking Group from 2009-present.

DANDY L. RIVERA
SVP and Head, Central Operations

Dandy Rivera was appointed as Senior Vice President of Maybank Philippines in August 16, 2012.

Prior to joining Maybank, Dandy served as Management Consultant for Premier Development Bank, where he also served as Senior Vice President for Finance and Business Support from 2007 to 2010. Dandy also had stints at Standard Chartered Bank, Australian New Zealand Bank, Primus Finance and Leasing, Security Bank and Planters Development Bank prior to joining Premier Bank.

Currently, he handles the Central Operations Group in Maybank Philippines Inc. catering to 10 different units bankwide.

NG YOK CHIN
EVP and Chief Risk Officer, Risk Management

Ng Yok Chin has been with Maybank Philippines for almost 14 years, sharing his vast experience and expertise as Head for Risk Management Group in a Senior Vice President capacity.

Prior to his Philippine assignment, Ng held various officer positions with the Malayan Banking Berhad (Maybank) from 1982 to 1999, the last being Credit Manager for Region Johor and Melaka.

Ng started as Head of Credit and Marketing in Maybank Philippines in 1999, before becoming Head of the Credit and Risk Management Group in 2000 and eventually Head for Risk and Remedial Management in 2002. In 2003, entire group was renamed Risk Management Group to align itself with the Parent Bank, and which Ng heads up to the present.

MANUEL A. CASTANEDA III
SVP and Head, Global Banking

Manuel A. Castañeda joined Maybank Philippines Inc. as Senior Vice President in September 2007.

A career banker, Tetet started his career with BPI Express Card Corp as Merchants Assistant from 1991 to 1993 before transferring to Asiatrust development Bank as Unit Head and Senior Manager from 1995-1997. In 1997, he joined International Exchange Bank as Relationship Manager and Head for Project Finance and stayed on until it was eventually renamed Union Bank in 2007.

In Maybank, Tetet started as Credit Manager for Enterprise Financial Services (EFS) and eventually assumed headship for the group, now known as Global Banking, in 2009.

JOSE A. MORALES III
SVP and Chief Audit Executive

Jose A. Morales III joined Maybank as Senior Vice President and Chief Audit Executive in January 2011. His experience in banking spans over 20 years with concentration in the fields of branch banking operations, international treasury operations, retail marketing, branch delivery systems, branch sales and marketing and internal auditing.

Prior to MPI, Joey has worked with RCBC Savings Bank where his last held position was Senior Vice President (2009-2011). He also worked as First Vice President to GE Money Bank (2006-2009), Director to PRICEWATERHOUSECOOPERS Philippines (2005-2006), Vice President and Branch Audit Head to United Coconut Planters Bank (1999-2005), Senior Manager and Head of Branch Systems for Union Bank of the Philippines (1990-1999), Senior Financial Analyst to San Miguel Corporation (1988-1990), Internal Audit Staff for Commercial Bank of Manila (1986-1988) and Staff Auditor for Sycip Gorres Velayo and Company (1982-1984).

ATTY. ARLENE JOAN R. TANJUAQUIO-AGUSTIN
SVP and Head, Investment and Asset Management

Arlene T. Agustin was appointed as Senior Vice President in October 1, 2012. She also serves as Group Head for Investment and Asset Management.

Arlene brings with her more than 2 decades of experience in Treasury. Prior to joining Maybank, she began her career as an Assistant Manager for China Banking Corporation from 1990 to 1996. In 1997 she became Senior AVP for Jade Savings Bank before assuming the position of Vice President and Treasury Head for Robinsons Savings Bank from 1999 to 2007.

Arlene was attached with GE Money Bank from 2007 to 2009 where she held position as First Vice President and Treasurer. She was also Customer Solutions Desk Head of Treasury Capital Markets and Derivatives at BDO Universal Bank while concurrent FVP-Treasurer of BDO Elite Savings from 2009 to 2011.

She currently heads the Global Markets and Trust units.

FIDES V. TANAY
SVP and Head, Human Capital

Fides V. Tanay was appointed as Senior Vice President and Head of the Human Resources (now known as Human Capital Management) in January 1, 2012.

Before joining Maybank, she was with Glaxo Smith Kline for nine years where her last held position was HR Officer from 1995-2000. Her roles included Medical Specialist from 1991 to 1993 and assistant to the HR department from 1993 to 1995. She was also with Analog Devices Philippines where she served as HR Business Manager from year 2000 to 2005.

Independent Auditor's Report

The Stockholders and the Board of Directors
Maybank Philippines, Incorporated
Maybank Corporate Centre
7th Avenue corner 28th Street
Bonifacio Global City
Taguig City

Report on the Financial Statements

We have audited the accompanying financial statements of Maybank Philippines, Incorporated which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended December 31, 2012 and for the six months ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Maybank Philippines, Incorporated as at December 31, 2012 and 2011, and its financial performance and its cash flows for the periods then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in note 33 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Maybank Philippines, Incorporated. 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.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez
Partner
CPA Certificate No. 111092
SEC Accreditation No. A-560-a (Group A),
Valid until May 31, 2013
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3670006, January 2, 2013, Makati City

March 15, 2013

Statements of Financial Position

	December 31	
	2012	2011
ASSETS		
Cash and Other Cash Items (Note 13)	₱1,125,070,812	₱821,617,120
Due from Bangko Sentral ng Pilipinas (Note 13)	5,645,295,468	3,935,991,172
Due from Other Banks (Note 29)	1,393,767,152	736,260,302
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 29)	128,068,422	1,146,456,099
Financial Assets at Fair Value Through Profit or Loss (Notes 6 and 29)	1,243,608,504	850,130,308
Available-for-Sale Investments (Notes 7 and 13)	3,769,731,896	9,111,903,848
Held-to-Maturity Investments (Notes 8, 13 and 27)	3,850,072,474	4,292,205,544
Loans and Receivables (Notes 9 and 29)	32,449,276,479	24,207,795,721
Property and Equipment (Note 10)	532,737,294	395,982,263
Investment Properties (Note 11)	349,231,056	386,486,319
Other Assets (Note 12)	281,598,769	133,288,349
TOTAL ASSETS	₱50,768,458,326	₱46,018,117,045
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 13 and 29)		
Demand	₱9,299,688,029	₱8,818,581,066
Savings	13,939,546,276	11,024,881,253
Time	13,924,111,655	9,832,314,245
	37,163,345,960	29,675,776,564
Financial Liabilities at Fair Value through Profit or Loss (Notes 17 and 29)	435,519,107	491,332,462
Bills Payable (Notes 14 and 29)	5,749,177,100	9,416,832,000
Manager's Checks	262,308,797	250,969,348
Income Tax Payable	143,876,594	16,463,628
Accrued Interest, Taxes and Other Expenses (Note 15)	289,485,395	329,142,748
Outstanding Acceptances	3,189,355	210,667,301
Other Liabilities (Note 16)	841,336,713	492,250,114
	44,888,239,021	40,883,434,165
EQUITY		
Preferred Stock (Note 19)	232,539,724	232,539,724
Common Stock (Note 19)	6,236,344,194	6,236,344,194
Cost of Share-based Payment (Note 19)	262,761,718	262,761,718
Surplus Reserve (Note 19)	36,828,840	35,911,028
Deficit	(936,853,000)	(1,555,753,085)
Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 7)	44,070,726	(85,007,694)
Cumulative Translation Adjustment	4,910,708	8,270,600
Treasury Shares (Note 19)	(383,605)	(383,605)
	5,880,219,305	5,134,682,880
TOTAL LIABILITIES AND EQUITY	₱50,768,458,326	₱46,018,117,045

See accompanying Notes to Financial Statements.

Statements of Income

For the year ended December 31, 2012 and The six months period ended December 31, 2011

	2012 (One Year)	2011 (Six Months)
INTEREST INCOME ON		
Loans and receivables (Notes 9 and 29)	₱2,374,969,690	₱931,660,409
Financial investments (Note 20)	424,712,198	296,407,125
Due from Bangko Sentral ng Pilipinas and other banks (Note 29)	85,251,009	24,327,471
Interbank loans receivable and securities purchased under resale agreements (Note 29)	31,964,337	33,614,508
	2,916,897,234	1,286,009,513
INTEREST EXPENSE ON		
Deposit liabilities (Notes 13 and 29)	740,917,938	261,273,443
Financial liabilities at fair value through profit or loss (Notes 17 and 29)	129,348,650	76,395,220
Bills payable and other borrowings (Notes 14 and 29)	96,072,458	41,505,390
	966,339,046	379,174,053
NET INTEREST INCOME	1,950,558,188	906,835,460
OTHER INCOME AND CHARGES		
Service charges, fees and commissions (Notes 22 and 29)	463,346,268	198,597,889
Net trading gains (losses) (Notes 6, 21 and 29)	285,168,237	(8,109,936)
Gain on sale of properties (Note 11)	52,222,791	5,403,293
Gain (loss) on foreclosure (Note 11)	(32,092,496)	356,500
Foreign exchange gains (losses) - net	(4,651,587)	20,966,195
Miscellaneous (Notes 24 and 29)	52,374,661	14,915,068
TOTAL OPERATING INCOME	2,766,926,062	1,138,964,469
OTHER EXPENSES AND CHARGES		
Compensation and fringe benefits (Notes 23 and 29)	684,008,123	330,199,088
Taxes and licenses (Note 26)	266,633,204	94,217,505
Provision for credit losses (Note 9)	158,319,992	116,681,411
Occupancy (Note 25)	132,384,080	52,263,665
Depreciation and amortization (Note 10)	106,859,690	47,771,739
Security, messengerial and janitorial	91,125,364	37,356,810
Insurance	69,978,236	28,951,376
Traveling	58,511,021	27,615,622
Entertainment, amusement and recreation (Note 26)	46,748,583	18,452,437
Postage, telephone and telegrams	34,349,166	16,197,781
Stationery and supplies used	20,316,085	9,049,524
Litigation and asset acquired	17,287,329	9,277,688
Management and other professional fees	15,676,619	5,259,272
Recovery from impairment losses (Notes 11 and 12)	(14,542,689)	-
Repairs and maintenance	8,223,474	4,903,623
Miscellaneous (Note 24)	194,168,914	78,538,414
TOTAL OPERATING EXPENSES	1,890,047,191	876,735,955
INCOME BEFORE INCOME TAX	876,878,871	262,228,514
PROVISION FOR INCOME TAX (Note 26)	257,060,974	49,236,755
NET INCOME	₱619,817,897	₱212,991,759

See accompanying Notes to Financial Statements.

Statements of Comprehensive Income

For the year ended December 31, 2012 and
The six months period ended December 31, 2011

	2012 (One Year)	2011 (Six Months)
NET INCOME	**₱619,817,897**	₱212,991,759
OTHER COMPREHENSIVE INCOME (LOSS)		
Net change in unrealized gain (loss) on available-for-sale investments (Note 7)	**129,078,420**	(45,470,575)
Cumulative translation adjustment	**(3,359,892)**	(1,620,033)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**125,718,528**	(47,090,608)
TOTAL COMPREHENSIVE INCOME	**₱745,536,425**	₱165,901,151

See accompanying Notes to Financial Statements.

Statements of Changes In Equity

For the year ended December 31, 2012 and
The six months period ended December 31, 2011

	Preferred Stock (Note 19)											
	"A"	"B"	"C"*	Common Stock (Note 19)*	Deposit for Stock Subcription (Note 19)	Cost of Share-Based Payment (Note 19)	Surplus Reserve (Note 19)	Deficit	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Available for-Sale Investments (Note 7)	Treasury Shares (Note 19)	Total
Balance at January 1, 2012	**₱4,440,000**	**₱8,880,000**	**₱219,219,724**	**₱6,236,344,194**	**₱-**	**₱262,761,718**	**₱35,911,028**	**(₱1,555,753,085)**	**₱8,270,600**	**(₱85,007,694)**	**(₱383,605)**	**₱5,134,682,880**
Total comprehensive income	-	-	-	-	-	-	-	**619,817,897**	**(3,359,892)**	**129,078,420**	-	**745,536,425**
Transfer from deficit to surplus reserve	-	-	-	-	-	-	**917,812**	**(917,812)**	-	-	-	-
Balance at December 31, 2012	**₱4,440,000**	**₱8,880,000**	**₱219,219,724**	**₱6,236,344,194**	**₱-**	**₱262,761,718**	**₱36,828,840**	**(936,853,000)**	**₱4,910,708**	**₱44,070,726**	**(₱383,605)**	**₱5,880,219,305**
Balance at July 1, 2011	₱4,440,000	₱8,880,000	₱219,219,724	₱4,749,660,854	₱1,486,683,365	₱262,761,718	₱35,471,073	(₱1,768,304,889)	₱9,890,633	(₱39,537,119)	(₱383,605)	₱4,968,781,754
Stock issuances	-	-	-	1,486,683,340	(1,486,683,365)	-	-	-	-	-	-	(25)
Total comprehensive income	-	-	-	-	-	-	-	212,991,759	(1,620,033)	(45,470,575)	-	165,901,151
Transfer from deficit to surplus reserve	-	-	-	-	-	-	439,955	(439,955)	-	-	-	-
Balance at December 31, 2011	₱4,440,000	₱8,880,000	₱219,219,724	₱6,236,344,194	₱-	₱262,761,718	₱35,911,028	(₱1,555,753,085)	₱8,270,600	(₱85,007,694)	(₱383,605)	₱5,134,682,

* Preferred Stock "C" and Common Stock include subscribed shares, net of subscriptions receivable, amounting to ₱148,000 and ₱179,550, respectively.

See accompanying Notes to Financial Statements.

Statements of Cash Flows
For the year ended December 31, 2012 and The six months period ended December 31, 2011

	2012 (One Year)	2011 (Six Months)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱876,878,871**	₱262,228,514
Adjustments for:		
Realized trading gains (Note 21)	**(244,840,147)**	(62,029,076)
Provision for credit losses (Note 9)	**158,319,992**	116,681,411
Depreciation and amortization (Note 10)	**106,859,690**	47,771,739
Gain on sale of properties (Note 11)	**(52,222,791)**	(5,403,293)
Amortization of premium and discount (Note 20)	**45,554,755**	54,256,617
Unrealized trading losses (gains) (Note 21)	**(40,328,090)**	70,139,012
Loss (gain) on foreclosure (Note 11)	**32,092,496**	(356,500)
Recovery from impairment losses (Notes 11 and 12)	**(14,542,689)**	-
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Loans and receivables	**(8,506,508,756)**	(3,989,894,368)
Financial assets at fair value through profit or loss	**(440,065,899)**	(601,586,194)
Other assets	**(124,012,507)**	40,650,909
Increase (decrease) in the amounts of:		
Deposit liabilities	**7,487,569,396**	3,190,678,860
Outstanding acceptances	**(207,477,946)**	210,667,301
Accrued interest, taxes and other expenses	**(39,657,353)**	(46,542,476)
Manager's checks	**11,339,449**	11,651,233
Other liabilities	**349,086,599**	(112,928,673)
Net cash used in operations	**(601,954,930)**	(814,014,984)
Income taxes paid	**(138,793,235)**	(41,276,330)
Net cash used in operating activities	**(740,748,166)**	(855,291,314)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale investments	**(9,264,931,423)**	(2,474,450,248)
Property and equipment (Note 10)	**(220,694,266)**	(55,027,703)
Held-to-maturity investments	**(108,554,946)**	(192,244,406)
Software (Note 12)	**(6,163,410)**	(12,179,620)
Placements in interbank loans receivable (Note 30)	**(4,050,272,376)**	(2,775,555,834)
Proceeds from:		
Sale of available-for-sale investments	**15,512,026,063**	756,967,000
Maturities of held-to-maturity investments	**133,300,000**	104,246,839
Disposals of investment properties	**104,969,559**	19,258,588
Disposals of property and equipment (Note 10)	**1,298,221**	10,943,066
Disposals of other properties acquired (Note 12)	**40,458,743**	1,169,545
Maturity of interbank loans receivable and securities purchased under resale agreements	**3,922,203,954**	2,788,125,874
Net cash provided by (used in) investing activities	**₱6,063,640,119**	(₱1,828,746,899)

(Forward)

Statements of Cash Flows
For the year ended December 31, 2012 and The six months period ended December 31, 2011

	2012 (One Year)	2011 (Six Months)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlements of bills payable	**(₱370,569,721,955)**	(₱162,524,071,300)
Availments of bills payable	**366,902,067,055**	163,721,202,300
Net cash provided by (used in) financing activities	**(3,667,654,900)**	1,197,131,000
CUMULATIVE TRANSLATION ADJUSTMENT	**(3,359,892)**	(1,620,033)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,651,877,161**	(1,488,527,246)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**821,617,120**	619,060,238
Due from Bangko Sentral ng Pilipinas (BSP)	**3,935,991,172**	3,157,778,731
Due from other banks	**736,260,302**	333,256,167
Interbank loans receivable and securities purchased under resale agreements (SPURA)	**1,146,456,099**	4,018,756,803
	6,640,324,693	8,128,851,939
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**1,125,070,812**	821,617,120
Due from BSP	**5,645,295,468**	3,935,991,172
Due from other banks	**1,393,767,152**	736,260,302
Interbank loans receivable and SPURA (Note 30)	**128,068,422**	1,146,456,099
	₱8,292,201,854	₱6,640,324,693

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	2012 (One Year)	2011 (Six Months)
Interest received	**₱3,707,070,581**	₱1,256,404,580
Interest paid	**1,188,461,556**	382,072,395

See accompanying Notes to Financial Statements

1. Corporate Information

Maybank Philippines, Incorporated (the Bank) is a commercial bank incorporated in the Philippines on January 3, 1953 to provide banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services through its 54 branches as of December 31, 2012 and 52 branches as of December 31, 2011. The Bank is 99.97% owned by Malayan Banking Berhad (MBB), the Bank's immediate and ultimate parent company incorporated in Malaysia.

On October 12, 1999, the Securities and Exchange Commission (SEC) approved the extension of the corporate term of the Bank for another 50 years.

On September 9, 2011, the BOD and the stockholders of the Bank approved the amendments to its Articles of Incorporation and By-laws to change its financial year from the fiscal year ending June 30 to calendar year ending December 31 and to change the date of the annual stockholders' meeting from the 3rd week of September each year to any day in March or April each year. The amendment was approved by Bangko Sentral ng Pilipinas (BSP), SEC and Bureau of Internal Revenue (BIR) on November 18, 2011, December 9, 2011 and January 9, 2012, respectively.

On March 15, 2012, the BOD approved the change in the Bank's principal and registered place of business to Maybank Corporate Center, 7th Avenue corner 28th Street, Bonifacio Global City, Taguig City.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value.

In view of the change of the Bank's financial year end as discussed in Note 1, the accompanying financial statements as of and for the twelve (12) months ended December 31, 2012 are not entirely comparable with the financial statements as of and for the six (6) months ended December 31, 2011.

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

The functional currency of RBU and FCDU is Philippine peso (PHP) and United States dollar (US$), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

Amounts are presented to the nearest PHP unless otherwise stated.

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 18.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial years except that the Bank has adopted the following PFRS, amendments to Philippine Accounting Standards (PAS) and Philippine Interpretations which became effective beginning January 1, 2012 and did not have any impact on the financial statements of the Bank.

New Standards and Interpretations

PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, Investment Property, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, Property, Plant and Equipment, always be measured on a sale basis of the asset.

Significant Accounting Policies

Foreign Currency Translation
Transactions and balances
The books of accounts of the RBU are maintained in PHP, while those of the FCDU are maintained in US$. For financial reporting purposes, the foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year (for assets and liabilities) and at the exchange rates prevailing at transaction dates (for income and expenses). Foreign exchange differences arising from foreign currency translation and revaluation of foreign currency-denominated assets and liabilities in the RBU, except for nonmonetary assets, are credited to or charged against operations in the year in which the rates change.

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

FCDU
As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's presentation currency at the PDS closing rate prevailing at the reporting date, and its income and expenses are translated at the exchange rates prevailing at transaction dates. Exchange differences arising on translation are taken directly to other comprehensive income (OCI) under 'Cumulative translation adjustment' in the statement of comprehensive income.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, foreign currency notes and coins, petty cash fund, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA) with the BSP 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 an insignificant risk of changes in value.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Regular way purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank. Any change in fair value of financial asset is recognized in the statement of income for financial assets at FVPL and it is recognized in OCI for assets classified as AFS investments. Deposits, amounts due to banks and customers and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Derivatives are recognized on trade date basis. Trade date is the date that an entity commits itself to purchase or sell an asset. Trade date accounting refers to (a) the recognition of an asset to be received or the liability to be paid on the trade date, and (b) the derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Initial recognition of financial instruments
All financial assets and financial liabilities are recognized initially at fair value plus, in the case of financial assets and financial liabilities not at FVPL, any directly attributable cost of acquisition or issue. The Bank classifies its financial assets in the following categories: financial assets at FVPL, AFS investments, held-to-maturity (HTM) investments and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Financial liabilities are categorized into financial liabilities at FVPL and other financial liabilities carried at amortized cost. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Reclassification of financial assets
The Bank may choose to reclassify a non-derivative trading financial asset out of the held-for-trading (HFT) category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the HFT or AFS investments categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Bank may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Bank has the ability to hold the financial instruments to maturity.

For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate (EIR). Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded directly in equity is recycled to the statement of income.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. EIR for financial assets reclassified to loans and receivables and HTM categories is determined at the reclassification date. Further increases in estimates of cash flows adjust EIR prospectively.

Determination of fair value
The fair value of 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 listed in an active market, the fair value is determined by using appropriate valuation techniques, which includes discounted cash flow technique and comparison to similar instruments for which market observable prices exist.

'Day 1' difference
Where the transaction price in a non-active market is different to 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 the fair value (a 'Day 1' difference) in the statement of income in 'Fair value gain (loss) on financial assets' unless it qualifies for recognition as some other type of asset. In cases where 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.

HFT investments
HFT investments represent government securities purchased and held principally with the intention of selling them in the near term. These securities are classified under financial assets at FVPL and are carried at fair market value. Realized and unrealized gains and losses on these instruments are recognized as 'Net trading gains (losses)' in the statement of income. Interest earned on HFT investments is reported under 'Interest income on financial investments' in the statement of income. Quoted market prices are used to determine the fair value of these financial instruments.

Derivative instruments
The Bank enters into derivative contracts such as interest rate swaps and currency forwards as means of reducing or managing their respective interest and foreign exchange exposures. Such derivative instruments classified as financial assets at FVPL 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 value on derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income under 'Net trading gains (losses)'. Derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The Bank assesses the existence of an embedded derivative on the date it first becomes a party to the contract, and performs re-assessment where there is a change to the contract that significantly modifies the cash flows.

Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial instruments designated at FVPL; when their economic risks and characteristics are not clearly and closely related to those of their respective host contracts; and when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

As of December 31, 2012 and 2011 the Bank's embedded derivatives identified as prepayment options are not required to be bifurcated from the host instruments as these were assessed to be clearly and closely related to the host contracts.

Financial instruments designated at FVPL
Financial instruments classified in this category are designated by management on initial recognition when any of the following criteria is met:

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

Financial instruments designated at FVPL are initially recognized in the statement of financial position at fair value. Changes in fair value on financial instruments designated at FVPL are recorded in 'Net trading gains (losses)' in the statement of income. Interest earned or incurred is recognized as 'Interest income' or 'Interest expense', respectively, in the statement of income.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that 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'. The Bank would then be unable to categorize financial instruments as HTM investments for the next two years.

After initial measurement, these investments are subsequently measured at amortized cost using the EIR method, less any 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 the statement of income under 'Interest income on financial investments'. The losses arising from impairment of such investments, if any, and effects of revaluation of foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables
This category includes amounts due from BSP and other banks, interbank loans receivable and SPURA, and loans and receivables. These are 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 designated as 'Financial assets at FVPL' or 'AFS investments'.

Loans and receivables include receivables arising from auto and contract-to-sell (CTS) financing and corporate transactions of the Bank.

After initial measurement, 'Loans and receivables', 'Due from BSP', 'Due from other banks', and 'Interbank loans receivable and SPURA' 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 and costs that are an integral part of the EIR. The amortization is included in the 'Interest income on loans and receivables' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit losses' in the statement of income.

When the estimated cash flows from the financial assets are revised, the carrying amount of the financial asset shall be adjusted to reflect the actual and revised estimated cash flows. The carrying amount shall be computed as the present value of estimated future cash flows at the financial instrument's original EIR or, when applicable, the revised EIR. Any difference shall be recognized in profit or loss as gain or loss on restructuring.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as designated 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, government securities and other debt securities.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of revaluation on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net change in unrealized gain (loss) on AFS investments' in the OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recycled to the statement of income under 'Net trading gains (losses)'. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a weighted average basis. Interest earned on holding AFS debt securities are reported as 'Interest income on financial investments' in the statement of income using the EIR method. Dividends earned on holding AFS equity securities are recognized in the statement of income as 'Miscellaneous income' when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for impairment losses' in the statement of income.

Financial liabilities at amortized cost
Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under deposit liabilities, bills payable and other payables, 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 other payables not qualified as 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;
- 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 control over the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over 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 liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of existing liability are substantially modified, such an exchange or modification is treated as 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.

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 in the statement of financial position as a loan to the Bank, reflecting the economic substance of such transaction. The Bank had no outstanding repurchase agreements as of December 31, 2012 and 2011.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The Bank is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized in the statement of financial position as SPURA, 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 amortization method.

Impairment of Financial Assets
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost
For loans and receivables, due from BSP, due from other banks and interbank loans receivable and SPURA, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against the statement of income. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery and all collateral has been realized. Subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit losses' account.

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 collateral, whether or not foreclosure is probable.

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

For the purpose of a collective impairment evaluation, 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 Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

AFS investments
For AFS investments, the Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity securities classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from OCI 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 OCI.

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 financial investments' in the statement of income. Subsequently, if the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

HTM investments
For HTM investments, the Bank assesses whether there is objective evidence of impairment at each reporting date. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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. Interest income continues to be recognized based on the original EIR of the asset. Subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to 'Provision for credit losses' account in the statement of income and the allowance account is reduced.

The HTM investments, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery and all collateral has been realized.

Offsetting Financial Instruments
Financial assets and 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 set off 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 gross in the statement of financial position.

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 the financial statements at fair value under 'Other liabilities'. 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 charges, fees and commissions', 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 impairment losses'. Any financial guarantee liability remaining is recognized in the statement of income in 'Service charges, fees and commissions', when the guarantee is discharged, cancelled or has expired.

Property and Equipment
Depreciable properties, including condominium units, furniture, fixtures and equipment and leasehold improvements, are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the equipment if the recognition criteria are met, but excludes repairs and maintenance cost.

The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred.
In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation and amortization are computed using the straight-line method over the estimated useful life (EUL) of the assets.

The EUL of property and equipment are as follows:

Condominium units	50 years
Furniture, fixtures and equipment	1 - 7 years
Leasehold improvements	5 years or term of the lease, whichever is shorter

Construction in progress (CIP) represents furniture, fixtures and equipment and leasehold improvements under construction or purchased by the Bank but not yet used in operations. CIP is not depreciated until such time that the relevant assets become completed and ready for operations use.

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

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

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 year 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 the 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 the asset given up. Foreclosed properties are classified under 'Investment properties' upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

The difference between the fair value of the foreclosed properties and the carrying value of the related receivables given up is recognized in 'Gain (loss) on foreclosure' account in the statement of income.

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

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over 5-10 years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of real properties acquired.

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

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

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 under 'Gain on sale of properties' in the year of retirement or disposal.

<u>Other Properties Acquired</u>
Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Bank applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of three years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

<u>Intangible Assets</u>
The Bank's intangible assets included under 'Other assets' in the statement of financial position consist of software costs.

Software costs
Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software controlled by the Bank and will generate economic benefits beyond one year, are capitalized. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognized as capital improvements and added to the original cost of the software. Capitalized computer software costs are amortized on a straight-line basis over four years.

<u>Impairment of Nonfinancial Assets</u>
Property and Equipment, Investment Properties, Other Properties Acquired and Software Costs
At each reporting date, the Bank assesses whether there is any indication that its property and equipment, investment properties, other properties acquired and software 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 greater of its fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

<u>Income Taxes</u>
Income tax on profit or loss for the year 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 directly in the statement of comprehensive income.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused MCIT over RCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises 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 amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable 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 relating to items recognized directly in the statement of comprehensive income is also recognized in OCI and not in the statement of income.

<u>Share-Based Payment Transactions</u>
Employees of the Bank receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuation expert using a binomial model, further details of which are given in

Note 19. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of MBB.

The cost of equity-settled transactions is recognized in the statement of income together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the vesting date. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

Treasury Shares
Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the statement of income on the purchase and sale of the Bank's own equity instruments.

Borrowing Costs
Borrowing costs are recognized as expense in the year in which these costs are incurred using the EIR method.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the Bank estimates cash flows from the financial instrument (for example, prepayment options), and 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.

Unearned discounts on loans are recognized as income over the terms of the loans using the EIR.

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

Gain (loss) on sale of properties
Gains or losses arising from the disposal of property and equipment, investment properties and other properties acquired shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss in the period of the disposal.

Service charges
Service charges are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectibility.

Fees and commissions
Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. 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 EIR as for the other participants.

Net trading gains (losses)
Net trading gain (loss) represents results arising from trading activities including all gains and losses from changes in fair value of financial assets and liabilities at FVPL and gains and losses from disposal of financial assets at FVPL and AFS investments.

Rental income
Rental income arising on leased premises is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

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

Other income
Credit-related income due to late payments and other loan-related fees are recognized in the period they are earned.

Expenses
Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. Expenses are recognized when incurred.

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 under "occupancy" in the statement of income on a straight-line basis over the lease term.

Bank as lessor
Leases where the Bank does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating lease. Lease payments received are recognized as an income in the statement of income on a straight-line basis over the lease term.

Pension Cost
Defined benefit plan
The Bank has a funded, noncontributory defined benefit plan administered by a trustee. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. The Bank's retirement cost is determined using the projected unit credit method. The retirement cost is generally funded through payments to a trustee-administered fund, determined by periodic actuarial calculations.

The net pension liability recognized in the statement of financial position in respect of defined benefit plan is the fair value of plan assets at the reporting date less the present value of the defined benefit obligation, together with adjustments for unrecognized actuarial gains or losses, past service costs and assets not recognized due to asset ceiling limit. Plan assets are assets that are held by a long-term employee benefit fund. 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 defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses of the plan at the end of the previous reporting year exceeded 10.00% of the higher of the present value of defined benefit obligation and the fair value of plan assets at that date. Net cumulative unrecognized actuarial gains and losses in excess of 10.00% of the higher of the defined benefit obligation and the fair value of plan assets of the previous reporting year are credited to or charged against income over the employees' average expected remaining working lives.

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

Defined contribution plan
The Bank also contributes to its contributory, defined-contribution type staff provident plan based on a fixed percentage of the employees' salaries as defined in the plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Compensation and fringe benefits' in the statement of income. Unpaid contributions, if any, are recorded as a liability.

Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and 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. When the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the

reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. 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 an 'Interest expense'.

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

Events after the Reporting Date
Post-year-end events that provide additional information about the Bank's 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 when material to the financial statements.

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.

Equity
Capital stock (preferred stock and common 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 'Capital Paid in Excess of Par Value' account.

Deposit for stock subscription represents payment made on subscription of shares which cannot be directly credited to capital stock pending approval of the SEC of the increase in the authorized capital stock of the Bank.

'Deficit' represents accumulated losses of the Bank.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD. Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective. Except as otherwise indicated, the Bank does not expect that the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on the financial statements.

PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, Interests in Joint Ventures and SIC-13, Jointly-controlled Entities: Non-monetary Contributions by Venturers. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013. The standard has no potential impact on the Bank's financial position or performance.

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, Investments in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013. The standard has no potential impact on the Bank's financial position or performance.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Bank does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result in the modification of the presentation of items of OCI.

PAS 19, *Employee Benefits* (Revised)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Bank has to apply the amendments retroactively to the earliest period presented.

The Bank reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Bank obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	2012	
	December 31	January 1
Increase (decrease) in:		
Statement of financial position		
Net pension liability	₱49,612,619	₱131,677,989
Deficit	121,734,118	131,677,989
Other comprehensive income	72,121,499	

	2012
Statement of income	
Net benefit expense	(₱9,943,871)
Net income	9,943,871
Statement of comprehensive income	
Remeasurement effects on net pension liability	72,121,499

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The standard has no potential impact on the Bank's financial position or performance.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after January 1, 2013. This new interpretation is not relevant to the Bank.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement

mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Bank's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Bank is currently assessing the impact of the amendments to PAS 32.

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial instruments to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. The Bank is still evaluating the effects of the adoption of PFRS 9.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Bank.

Annual Improvements to PFRSs (2009-2011 cycle)
The *Annual Improvements to PFRSs (2009-2011* cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Bank's financial position or performance.

PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, Income Taxes. The Bank expects that this amendment will not have any impact on its financial position or performance.

PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Bank's financial position or performance.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS 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.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

a. *HTM investments*
The Bank classifies quoted non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances (such as selling an insignificant amount close to maturity), it will be required to reclassify the entire class as 'AFS investments'. The investments would therefore be remeasured at fair value and not at amortized cost.

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

c. *Functional currency*
PAS 21, Effects of Changes in Foreign Exchange Rates, requires management to use its judgment to determine the Bank's FCDU functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Bank. In making this judgment, the Bank considers the following:
   a. the currency that mainly influences sales prices for financial instruments and services (This will often be the currency in which prices for its financial instruments and services are denominated and settled);
   b. the currency in which funds from financing activities are generated; and
   c. the currency in which receipts from operating activities are usually retained.

d. *Operating leases*
Bank as lessee
The Bank has entered into leases on premises it uses for its operations. The Bank has determined based on the evaluation of 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 the lessor has retained all the significant risks and rewards of ownership of these properties which are leased out as operating leases.

Bank as lessor
Leases where the Bank retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease payments received are recognized as 'Rental income' under 'Miscellaneous income' in the statement of income on a straight-line basis over the lease term.

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

f. *Contingencies*
The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 28).

Estimates

a. *Fair values of derivatives*
The fair values of derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

To the extent practical, valuation models use only market observable data, however areas such as credit risk (both own and counterparty) require management to make estimates. Changes in assumptions about these factors could affect reported fair value of derivative instruments.

Refer to Note 17 for the fair values of the Bank's derivatives.

b. *Valuation of unquoted equity securities*
Valuation of unquoted equity securities is normally based on the following:
- recent arm's length transaction;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at the current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity securities require significant estimation. The Bank reviews the valuation techniques periodically and tests them for validity using either price from observable current market transactions in the same instrument or from other observable available market data. However, for unquoted equity securities where there are no observable current market transactions and no reliable basis of fair value, the Bank measures them at cost less allowance for impairment losses.

As of December 31, 2012 and 2011, the Bank's unquoted equity securities valued at cost (included under 'AFS investments' in the statements of financial position) amounted to ₱3.5 million and ₱3.2 million, respectively (see Note 7).

c. *Impairment of AFS equity securities*
The Bank determines that AFS equity securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. The Bank generally treats as 'significant' decline in fair value of 20.00% or more and 'prolonged' as greater than 12 months.

In making this judgment, the Bank evaluates among other factors, the normal volatility in share price, in addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Bank's AFS equity securities are carried at ₱15.9 million and ₱16.0 million as of December 31, 2012 and 2011, respectively. As of the same dates, no allowance for impairment losses was recognized on these investments (see Note 7).

d. *Impairment of AFS debt securities*
The Bank reviews its debt securities classified as AFS investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and receivables.

As of December 31, 2012 and 2011, the Bank's AFS debt securities amounted to ₱3.8 billion and ₱9.1 billion, respectively. As of the same dates, no allowance for impairment losses was recognized on AFS debt securities (see Note 7).

e. *Credit losses on loans and receivables*
The Bank reviews its loan portfolio to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in the statements of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

The amount and timing of recorded expense for any period would differ if the Bank made different judgments or utilized different estimates. An increase in allowance for credit losses would increase the recorded operating expenses and decrease total assets.

Refer to Note 9 for the carrying values of loans and receivables and the allowance for credit losses.

f. *Impairment of property and equipment, investment properties, other properties acquired and software costs*
The Bank assesses impairment on assets 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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined based on the asset's fair value and are estimated for individual assets.

Refer to Notes 10 and 11 for the carrying values of property and equipment and investment properties, respectively, and Note 12 for the carrying values of other properties acquired and software costs.

g. *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that taxable income will be available against which 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 income together with future tax planning strategies.

The Bank has been in tax loss position over the past several years. The Bank believes that it is highly probable that certain temporary differences will not be realized in the future.

Refer to Note 26 for the details of recognized and unrecognized deferred tax assets.

h. *Estimated useful lives of property and equipment, investment properties, other properties acquired and software costs*
The Bank reviews on an annual basis the EUL of property and equipment, investment properties, other properties acquired and software costs based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property and equipment, investment properties, other properties acquired and software costs would decrease their respective balances and increase the recorded depreciation and amortization expense.

The EUL of property and equipment, investment properties, other properties acquired and software costs are discussed in Note 2. Refer to Notes 10, 11 and 12 for the carrying values.

i. *Present value of retirement obligation*
The cost of defined benefit 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 was based on the market prices prevailing on the date applicable to the period over which the obligation is to be settled. The assumed discount rates were determined using the market yields on Philippine government securities with terms consistent with the expected employee benefit payout as of reporting dates. Refer to Note 23 for the details of assumptions used in the calculation.

As of December 31, 2012 and 2011, the present values of the defined benefit obligation amounted to ₱216.4 million and ₱270.4 million, respectively (see Note 23).

4. Financial Risk Management Objectives and Policies

General Risk Management Structure
Risk Management structure within the Bank consists of three lines of defense consisting of risk taking units, risk control units, and Internal Audit. The BOD, through the Risk Management Committee (RMC) performs overall supervision of risk management. Loan proposals and other transactions beyond the approval level of the management committees, particularly those involving directors, officers, stockholders and related interests (DOSRI), are elevated to the BOD, which is the highest authority within the Bank. The RMC is a Board-level Committee that is responsible for setting the Bank's corporate risk policy and strategies. It ensures the adequacy of the risk management infrastructure in the Bank to address the risks it faces in its banking activities including credit, market and liquidity risks.

Senior Management also plays an integral role in ensuring proper implementation of risk policies and strategies. The Bank has the following committees that manage the Bank's key risk areas:

- Credit and Loans Committee (CLC) is responsible for the approval of loan and investment proposals, as well as policies, frameworks and methodologies pertaining to credit risk.

The CLC has a maximum approving limit of ₱250.0 million for secured and ₱100.0 million for unsecured loans. Proposals beyond this level have to be escalated to MBB's Credit Committee for concurrence prior to submission to BOD for approval.

- Asset and Liability Committee (ALCO) is responsible for the Bank's asset and liability management policies and strategies that address market risk, liquidity risk, balance sheet structure, and capital management.

- Management Committee is responsible for the Bank's operational risk management policies, frameworks and methodologies encompassing all banking operations.

Risk Management is functionally independent of risk-taking units within the Bank. It is composed of Group Credit Risk Management (GCM), Credit Risk Management (CRM), Market Risk Management (MRM), Operational Risk Management (ORM) and Enterprise Risk Management (ERM). It is responsible for the development of measures to ensure that the risk inherent in the Bank's activities are properly identified, measured, controlled and reported.

Risk Management has the following general objectives:

- To promote risk management culture and philosophy of risk awareness
- To assist risk-taking business and operating units in understanding and measuring risk/return profiles
- To develop risk and control infrastructure
- To develop, disseminate, and maintain formalized risk policies, frameworks, methodologies and tools
- To provide effective means of differentiating the degree of risk in the various business portfolio of the Bank

Internal Audit provides independent assurance of the effectiveness of the risk management approach. The Audit Committee, which is a Board-level committee, is responsible for the overall supervision of the audit function within the organization.

Risk Measurement and Reporting
To measure risk of default, the Bank makes use of the Internal Credit Risk Rating System (ICRRS) which consists of 14 risk grades that are mapped to external ratings, as well as risk classification according to BSP guidelines. The ICRRS is used as a tool for decision making as well as in determining appropriate pricing for loan accounts. The key risk indicators for credit measures the Bank's credit risk position against targets, historical performance or industry average in selected areas as of a given period.

In terms of measuring the Bank's ability to withstand the impact of stress conditions, stress testing methodology is used. Through the stress testing, the impact of exceptional events on the Bank's asset quality, profitability, and capital adequacy is measured.

In terms of reporting, CRM prepares regular loan portfolio reports covering areas such as business growth, asset quality, concentration of exposures and compliance to applicable regulatory and internal guidelines. These reports are submitted to the CLC, RMC, BOD and other end-users.

Risk Mitigation
As part of its risk management, the Bank uses derivatives to manage exposures resulting from changes in interest rates.

Where appropriate, the Bank requires a second way out in the form of eligible collaterals or guarantee/surety to mitigate credit risk.

Credit Risk
Credit risk comprises bulk of the Bank's risk capital. Credit risk is managed through a two-pronged approach: the credit risk management and credit portfolio management.

Credit risk management undertakes the formulation of frameworks, tools, and methodologies for the identification, measurement, monitoring, control and pricing of credit risk in accordance to the Bank's risk appetite and lending direction and strategies. Methodologies are formulated in coordination with MBB to ensure consistency of risk management approach across the Maybank Group. Where applicable, methodologies and tools are adopted from MBB and customized to the local operating environment.

Credit risk management is responsible for setting concentration limits and monitoring exposures against these limits. It also prepares various credit risk reports submitted to Management, RMC, and the BOD. All loan products are coursed through the Credit Risk Management for review.

Credit risk management also assists in the development and implementation of various mechanisms to support business generation, capital optimization, portfolio management, and Basel II implementation. It ensures that credit approval structures follow the "four eyes policy" for appropriate check and balance. Moreover, it is responsible for the pre-approval independent risk evaluation of credit proposals and for credit quality review of selected accounts not subject to pre-approval review. Under the Internal Audit, the Credit Review Unit undertakes the post-approval review of selected loan accounts.

Collateral and other credit enhancements

There are various collaterals and securities that are acceptable to the Bank. In evaluating acceptability of collateral, three factors are considered: control, disposability and margin.

The Account Officer is primarily responsible in ensuring the acceptability of collaterals/security obtained to secure the loan based on established minimum acceptance criteria and maximum margin of financing.

The Account Officer is responsible in ensuring that the collaterals are duly and regularly inspected and appraised; adequately insured where necessary; and payment of applicable taxes are updated.

The Account Officer also ensures that the approved margin of financing is maintained throughout the life of the loan.

Loans or portions thereof that are covered by collateral/security including but not limited to the following are considered secured:

- Registered First Real Estate Mortgage over eligible real estate properties with road right of way
- Peso or US Dollar-denominated deposits that are maintained with the Bank
- Government securities
- Motor vehicles
- Machinery and equipment
- Publicly-traded shares of stocks

Direct and indirect borrowings of the Philippine government is treated as non-risk and considered as secured.

Borrowings secured by guarantees/collateral issued by MBB, Maybank Branches and subsidiaries are considered secured.

Maintenance, marketing and disposal of the Bank's acquired assets are being undertaken by its affiliate, Philmay Properties, Inc. (PPI). Pending disposal of acquired assets, PPI arranges for the properties to be leased on a short-term basis by interested parties.

Credit risk exposures
The table below shows the Bank's maximum exposure to credit risk on loans and receivable as of December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	After Financial Effect of Collateral or Credit Enhancement	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Loans and receivables:				
Loans:				
Corporate	**₱10,102,899,566**	**₱9,243,396,497**	₱7,806,770,413	₱7,034,162,999
Commercial	**6,951,111,590**	**5,704,231,083**	4,641,395,348	3,805,044,559
Consumer:				
Auto loans	**7,951,438,776**	**427,773,154**	5,299,741,599	228,557,453
Housing loans	**4,953,338,826**	**4,054,413,065**	4,342,601,546	59,751,074
Others	**1,200,424,865**	**965,416,533**	939,939,888	735,539,757
	31,159,213,623	**20,395,230,332**	23,030,448,794	11,863,055,842
Unquoted debt securities:				
Private	**36,426,755**	**36,426,755**	49,924,321	49,924,321
Government	49,276,778	49,276,778	56,369,530	56,369,530
	85,703,533	**85,703,533**	106,293,851	106,293,851
Accounts receivable:				
Corporate	**554,864,549**	**37,280,946**	532,905,765	15,322,162
Individual	**21,458,368**	**21,458,368**	5,473,658	5,473,658
	576,322,917	**58,739,314**	538,379,423	20,795,820
Accrued interest receivable	**340,743,811**	**340,743,811**	345,587,034	345,587,034
Sales contract receivable:				
Individual	**188,671,555**	**-**	159,259,688	-
Corporate	**38,345,602**	**-**	24,125,195	-
	227,017,157	**-**	183,384,883	-
RCOCI	**60,275,438**	**60,275,438**	3,701,736	3,701,736
	₱32,449,276,479	**₱20,940,692,428**	₱24,207,795,721	₱12,339,434,283

For the other financial assets, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2012 and 2011.

Credit risk management has set concentration limits according to various categories such as individual/group borrower, banks, countries, collateral, economic sectors, and product types to ensure optimal portfolio diversification.

Risk Concentration
Concentration of credit arises 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.

Concentration limits are set by Credit Risk Management, endorsed by RMC, and approved by the BOD. These include limits by business segments, credit facility/portfolio, collateral/security, economic sector, loan size and obligor type. These limits are established to ensure diversification, capital optimization and appropriate management of concentration risk.

The tables below show the distribution of maximum credit exposure by industry sector of financial assets and off-balance sheet items before taking into account the fair value of the loan collateral orother credit enhancements (amounts in thousands):

	December 31, 2012		December 31, 2011	
	Amount	%	Amount	%
Loans and Receivables				
Construction and real estate	**₱6,560,528**	**20.27**	₱6,062,096	25.15
Wholesale and retail, repair of motor vehicles, motorcycles and personal household goods	**5,238,868**	**16.19**	3,797,937	15.76
Trading and manufacturing	**2,627,855**	**8.12**	2,468,530	10.24
Financial intermediaries	**2,366,726**	**7.31**	2,086,162	8.66
Transportation, storage and communication	**1,529,480**	**4.73**	517,142	2.15
Power, electricity and water distribution	**918,594**	**2.84**	1,554,362	6.45
Government	**890,141**	**2.75**	111,670	0.46
Agriculture	**244,414**	**0.76**	254,985	1.06
Other	**11,986,966**	**37.04**	7,248,618	30.08
	32,363,572	**100.00**	24,101,502	100.00
Unquoted debt securities				
Government	**49,277**	**57.50**	56,370	53.03
Manufacturing	**30,000**	**35.00**	30,000	28.22
Transportation, storage and communication	**6,427**	**7.50**	19,924	18.74
	85,704	**100.00**	106,294	100.00
Loans and Advances to Banks*				
Government	**5,645,295**	**78.77**	4,945,991	85.00
Financial intermediaries	**1,521,836**	**21.23**	872,716	15.00
	7,167,131	**100.00**	5,818,707	100.00
Trading and Financial Investment Securities**				
Government	**6,962,997**	**78.56**	8,028,138	56.32
Financial intermediaries	**814,050**	**9.18**	3,684,762	25.85
Construction and real estate	**478,564**	**5.40**	10,300	0.07
Trading and manufacturing	**410,400**	**4.63**	-	-
Transportation, storage and communication	**191,082**	**2.16**	144,338	1.01
Others	**6,320**	**0.07**	2,386,702	16.75
	8,863,413	**100.00**	14,254,240	100.00
Other***				
Power, electricity and water distribution	**751,215**	**46.48**	331,100	8.29
Wholesale and retail, repair of motor vehicles, motorcycles and personal household goods	**563,715**	**34.88**	729,303	18.27
Trading and manufacturing	**198,423**	**12.28**	312,919	7.84
Construction and real estate	**-**	**-**	1,482,911	37.14
Transportation, storage and communication	**-**	**-**	325,134	8.14
Financial intermediaries	**-**	**-**	319,101	7.99
Others	**102,787**	**6.36**	492,357	12.33
	1,616,140	**100.00**	3,992,825	100.00
	₱50,095,960		₱48,273,568	

* Consists of Due from BSP, Due from other banks and Interbank loans receivables and SPURA
** Consists of Financial assets at FVPL, AFS investments and HTM investments
*** Consists of Miscellaneous COCI and Contingent liabilities relating to outstanding letters of credit

Credit quality per class of financial assets

The Bank does not subject its investments to risk rating. It relies on acceptable third party issuer or issue ratings, international or local, as applicable. Any exposure, whether direct or indirect, to the sovereign entity - Republic of the Philippines (ROP) and BSP, is considered non-risk or high grade. Issuances by ROP and BSP are considered as high grade since the chance of default is virtually nil.

Private entities, such as financial institutions or corporations, issuing debt securities, with risk rating similar to ROP/BSP are likewise classified as high grade. Such entities are generally held as top-tier. Companies with third party ratings lower than ROP are classified as standard grade. These are companies that exhibit moderate credit risk with acceptable capacity to meet its financial commitments.

Companies without third party ratings are classified unrated.

For loans and receivables, the following are subject to risk rating.

- Corporated and commercial loans (except those fully secured by hold-out on deposits)
- Contract-to-sell financing (risk rating on the developer)
  Accounts which are not subjected to risk rating, such as consumer loans, are considered unrated.

Loan Grades

- Performing Grade is from Grade 1 to 21. - Grade 1 (i.e. lowest probability of default) is the best grade while Grade 21 (i.e. highest probability of default) is the worst grade.
  - a.) High grade (accounts with risk grade of 1 to 10)

    Accounts falling within this classification have low credit risk with good to excellent capacity to meet its financial commitments
  - b.) Standard grade (accounts with risk grade of 11 to 15)
    Accounts falling within this classification may have substantial to fairly good credit risk but the capacity to meet their financial commitments remains acceptable.
  - c.) Substandard grade (accounts with risk grade of 16 to 21)
    Accounts under this category exhibit high credit or default risk with impairment characteristics that are neither classified under 'past due but not impaired' nor 'individually impaired.

- Non-Performing Grade is from Grade 22 to 25 which is under past due or impaired. Performing Grade is from Grade 1 to 21. - Grade 1 (i.e. lowest probability of default) is the best grade while Grade 21 (i.e. highest probability of default) is the worst grade.

a.) Grade 22 is a non-performing grade assigned to borrowers when:
These are loans which have potential weaknesses that deserve Management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

b.) Grade 23 is a non-performing grade assigned to borrowers when:
These are loans or portions thereof which appear to involve substantial and unreasonable degree or risk to the institution because of unfavorable record or unsatisfactory characteristics. There exists in such loan the possibility of future loss to the institution unless given closer supervision. These classified "substandard" must have a well-defined weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends of development or development of financial, managerial, economic or political nature or a significant weakness in collateral. Their basic characteristics are:
1.) Current loans to borrowers whose audited financial statements show impaired or negative networth except start up firms which should be evaluated on case to case basis.
2.) Current loans to borrowers whose audited financial statements show impaired or negative networth except start up firms which should be evaluated on case to case basis.
3.) Current loan of borrowers with unfavorable results of operations for 2 consecutive years or with impaired/negative networth except start - up firms which should be evaluated on case to case basis.
4.) Loans past due for more than 90 days.
5.) Loans without latest audited financial statement to determine repayment capacity.

c.) Grade 24 is a non-performing grade assigned to borrowers when:
These are loans or proportions thereof which have weaknesses inherent in those classified as "substandard" with the added characteristics that existing facts, conditions and values make collections or liquidation in full highly improbable and in which substantial loss is probable. Example, past due loans wherein the possibility of loss is extremely high but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of asset, its classification as an estimated loss is deferred until a more exact status is determined.

d.) Grade 25 is a non-performing grade assigned to borrowers when:
These are loans or portions thereof which are considered uncollectible or worthless.

- Start-up companies, regardless of the strength of their percentage have default grade cap of 19.

The tables below show the credit quality by class of financial assets (gross of allowance for credit losses, but net of unearned interest and discounts and other deferred income) of the Bank (in thousands):

	December 31, 2012					
	Neither Past Due nor Impaired					
		Standard Substandard			Past Due or	
	High Grade	Grade	Grade	Unrated	Impaired	Total
Due from BSP	₱5,645,295	₱-	₱-	₱-	₱-	₱5,645,295
Due from other banks	1,393,767	-	-	- -	1,393,767	
Interbank loans receivable and SPURA	128,068	-	-	-	-	128,068
	7,167,130	-	-	-	-	7,167,130
Financial assets at FVPL:	-	-	-	-	-	
HFT investments:		-	-	-	-	
Government securities	1,200,058	-	-	-	-	1,200,058
Derivative Assets	43,550	-	-	-	-	43,550
	1,243,608	-	-	-	-	1,243,608
AFS investments:		-	-	-	-	
Government securities	2,447,504	-	-	-	-	2,447,504
Private debt securities	1,306,335	-	-	-	-	1,306,335
Quoted equity securities	12,407	-	-	-	-	12,407
Unquoted equity securities	3,486	-	-	-	-	3,486
	3,769,732	-	-	-	-	3,769,732
HTM investments:		-	-	-	-	
Government securities	3,289,672	-	-	-	-	3,289,672
Private debt securities	560,400	-	-	-	-	560,400
	3,850,072	-	-	-	-	3,850,072
Loans and receivables:						
Corporate	772,497	5,393,771	3,440,308	502,836	283,816	10,393,228
Commercial	361,350	2,749,650	2,288,961	1,444,045	246,817	7,090,823
Consumer:						
Auto loans	-	-	-	7,813,749	194,207	8,007,956
Housing loans	-	2,013,280	1,995,854	909,252	182,174	5,100,560
Others	-	-	-	1,186,627	52,829	1,239,456
	1,133,847	10,156,701	7,725,123	11,856,509	959,843	31,832,023
Unquoted debt securities:						
Private	-	6,427	-	30,000	-	36,427
Government	276	-	-	-	189,167	189,443
	276	6,427	-	30,000	189,167	225,870
Accounts receivables:						
Corporate	14,791	63	53	539,587	89,791	644,285
Individual	14	254	430	20,564	10,169	31,431
	14,805	317	483	560,151	99,960	675,716
Accrued interest receivabl	207,471	41,394	31,575	68,048	30,105	378,593
Sales contracts receivable:						
Individual	-	-	167,018	-	25,483	192,501
Corporate	-	-	26,217	-	14,273	40,490
	-	-	193,235	-	39,756	232,991
RCOCI	-	-	-	60,275	-	60,275
Miscellaneous	-	-	-	-	325,944	325,944
	-	-	-	60,275	325,944	386,219
	₱17,386,941	₱10,204,839	₱7,950,416	₱12,574,983	₱1,644,775	₱49,761,954

	December 31, 2011					
	Neither Past Due nor Impaired					
		Standard Substandard			Past Due or	
	High Grade	Grade	Grade	Unrated	Impaired	Total
Due from BSP	₱3,935,991	₱-	₱-	₱-	₱-	₱3,935,991
Due from other banks	736,260	-	-	-	-	736,260
Interbank loans receivable and SPURA	1,146,456	-	-	-	-	1,146,456
	5,818,707	-	-	-	-	5,818,707
Financial assets at FVPL:						
HFT investments:						
Government securities	819,108	-	-	-	-	819,108
Derivative Assets	31,022	-	-	-	-	31,022
	850,130	-	-	-	-	850,130
AFS investments:						
Private debt securities	5,483,228	-	-	-	-	5,483,228
Government securities	3,612,694	-	-	-	-	3,612,694
Quoted equity securities	12,818	-	-	-	-	12,818
Unquoted equity securities	3,164	-	-	-	-	3,164
	9,111,904	-	-	-	-	9,111,904
HTM investments:						
Government securities	3,562,149	-	-	-	-	3,562,149
Private debt securities	730,057	-	-	-	-	730,057
	4,292,206	-	-	-	-	4,292,206
Loans and receivables:						
Corporate	3,228,574	3,035,001	1,337,495	170,720	288,675	8,060,465
Commercial	436,757	3,164,905	700,509	227,642	229,509	4,759,322
Consumer:						
Auto loans	-	-	229,758	5,044,543	48,334	5,322,635
Housing loans	634,020	2,908,691	207,546	530,677	201,956	4,482,890
Others	-	-	497	941,494	38,429	980,420
	4,299,351	9,108,597	2,475,805	6,915,076	806,903	23,605,732
Unquoted debt securities:						
Private	-	19,924	-	30,000	-	49,924
Government	439	-	-	-	189,167	
	439	19,924	-	30,000	189,167	239,530
Accounts receivables:						
Corporate	15,553	1	104	605,830	1,640	623,128
Individual	-	9	994	13,643	-	14,646
	15,553	10	1,098	619,473	1,640	637,774
Accrued interest receivable	236,864	42,742	16,921	57,146	16,613	370,286
Sales contracts receivable:						
Individual	-	-	139,946	-	37,273	177,219
Corporate	-	-	12,140	-	-	12,140
	-	-	152,086	-	37,273	189,359
RCOCI	-	-	-	3,702	-	3,702
Miscellaneous	-	-	-	-	325,944	325,944
	-	-	-	3,702	325,944	329,646
	₱24,625,154	₱9,171,273	₱2,645,910	₱7,625,397	₱1,377,540	₱45,445,274

As of December 31, 2012 and 2011, allowance on individually impaired receivables of the Bank amounted to ₱920.4 million and ₱847.3 million, respectively (see Note 9)

Aging analysis of past due but not impaired per class of financial assets
The tables below show the aging analysis of past due but not impaired loans receivables per class of the Bank as of December 31, 2012 and 2011. Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

	December 31, 2012			
	Less than 30 Days	**30 to 59 Days**	**60 to 89 Days**	**Total**
Consumer:				
Auto loans	**₱1,614,743**	**₱18,459,210**	**₱136,634,151**	**₱156,708,104**
Housing loans	**-**	**-**	**34,172,801**	**34,172,801**
Others	**176**	**4,163,350**	**27,083,576**	**31,247,102**
	1,614,919	**22,622,560**	**197,890,528**	**222,128,007**
Commercial	**47,772,955**	**11,241,284**	**4,360,000**	**63,374,239**
	₱49,387,874	**₱33,863,844**	**₱202,250,528**	**₱285,502,246**

	December 31, 2011			
	Less than 30 Days	30 to 59 Days	60 to 89 Days	Total
Consumer:				
Auto loans	₱10,114,547	₱14,773,983	₱9,735,294	₱34,623,824
Housing loans	9,523,202	-	36,917,193	46,440,395
Others	2,474,284	4,967,736	2,411,890	9,853,910
	22,112,033	19,741,719	49,064,377	90,918,129
Commercial	-	2,000,000	-	2,000,000
	₱22,112,033	₱21,741,719	₱49,064,377	₱92,918,129

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 the principal or the interest beyond a certain threshold. 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.

Market Risk
The Bank has in place a Market Risk Management Framework to provide a set of general principles to guide the Bank to identify, measure, control and monitor market risk exposures as well as roles and responsibility in managing risk. All market risk policies being issued are reviewed at least annually to ensure compliance with regulatory requirements and up to par with international best practices.

The BOD sets the Bank's tolerance for market risk and cascades this to Senior Management. Senior Management shall establish appropriate risk limits, duly approved by the BOD, to maintain the exposure within the set tolerances over a range of possible changes in market risk factors such as interest rates. These limits shall represent the Bank's actual willingness and ability to accept real losses. In setting risk limits, the BOD and Senior Management consider the nature of the Bank's strategies and activities, past performance, and management skills. Most importantly, the BOD and Senior Management take into account the level of the Bank's earnings and capital and ensure that both are sufficient to absorb losses equal to the proposed limits. Furthermore, limits shall be flexible to changes in conditions or risk tolerances and shall be reviewed periodically.

The Bank established the Market Risk Management Unit (MRM) to assist the BOD, ALCO, RMC and the risk-taking units to monitor and manage the Bank's market risk exposures independently from the risk-taking units. MRM's roles include the following:

- Ensure that the market and liquidity risk management objectives of the Bank are achieved through the development, implementation, maintenance and enhancement of a comprehensive risk management framework that comprises of qualitative and quantitative methodologies to identify, measure, control and monitor, among others, the following:
  - Market risks, which covers the risk of loss of earnings arising from changes in interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities
  - Liquidity risks, which covers liquidity crisis, funding structure, fund raising policies and strategies, diversification of funding sources, gap analysis and management
- Provide support functions to the ALCO to facilitate informed strategic management decision making
- Provide consultative services and support functions to all relevant units within the Bank on matters pertaining to market and liquidity risks management and treasury operations
- Participate, in collaboration with other risk management units within the Bank, to identify and address various risk inherent in new treasury and core banking products prior to product introduction
- Provide revaluation prices of relevant treasury products transacted by various business units within the Bank
- Carry out daily independent oversight of the Treasury operations
- Coordinate integration with credit and operational risk units

Various risk measurement techniques are used by the Bank to monitor and manage market risk, such as Price-Value-of-a-Basis-Point (PV01), Earnings-at-Risk (EaR) and Stop loss limits.

Interest rate risk
Trading - PV01
One of MPI's risk measures to monitor interest rate risk sensitivity is the PV01. This measures the change in the value of the portfolio with 1 basis point increase in the yield curve and is applicable for the rates trading portfolio. Limits are set annually to re-assess the Bank's risk appetite and strategy. The PV01 is computed and reported daily to Global Markets and Senior Management. PV01 utilization is also reported during the monthly ALCO meetings.

Shown in the table below is the Interest Rate Sensitivities (PV01*) Report - By Portfolio/Desk as at December 31, 2012.

Desk	Summary	Rates Trading
PHP	Total	-43,591
	Limit	150,000
	Utilization (%)	29.06%
USD	Total	-1,645
	Limit	150,000
	Utilization (%)	1.10%
NET	Total	-45,236
	Limit	150,000
	Utilization (%)	30.16%

Expressed in USD equivalents
*The Bank started to measure its trading risk exposures using PV01 last April 2012.

Non-trading - EaR
The method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of asset-liability gap analysis. This analysis provides the Bank with a measure of its susceptibility to changes in interest rates. The repricing gap is calculated by first distributing the assets and liabilities contained in the Bank's statement of financial position into tenor buckets (or the time remaining to maturity if there is no repricing), and then obtaining the difference between the total of the repricing (interest rate-sensitive) assets and repricing (interest rate-sensitive) liabilities.

The Bank also measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of EaR limit. The Bank, in collaboration with MBB, has taken into consideration its business needs as well as compliance requirement for regulators in deriving the above limits.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

Accordingly, during a period of rising interest rates, a bank with a positive gap would be in a position to invest in higher yielding assets earlier than it would need to refinance its interest rate `sensitive liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its interest rate sensitive assets repricing earlier than its interest rate sensitive liabilities, which may restrain the growth of its net income or result in a decline in net interest income.

The Bank monitors the exposure of financial assets and financial liabilities to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income. This is done by modeling the impact of various changes in interest rates to the Bank's interest-related income and expenses.

The following tables provide additional information on the statistical impact on NII and Equity as of December 31, 2012 and 2011:

	December 31, 2012			
Currency	**PHP**		**US$**	
Changes in interest rates (in basis points)	**+200**	**-200**	**+200**	**-200**
Change in annualized net income (in thousands)	**(₱29,556)**	**₱29,556**	**(₱9,985)**	**₱9,985**
Change in equity (in thousands)	**39,408**	**(39,408)**	**(3,444)**	**3,444**

	December 31, 2011			
Currency	PHP		US$	
Changes in interest rates (in basis points)	+200	-200	+200	-200
Change in annualized net income (in thousands)	₱116,646	(₱116,646)	₱4,384	(₱4,384)
Change in equity (in thousands)	(376,808)	376,808	(21,527)	21,527

The impact on the Bank's equity already excludes the impact on transactions affecting the income statement.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at the reporting date. The sensitivity of equity is calculated by revaluing fixed-rate AFS investments at reporting date for the effects of the assumed changes in interest rates. The impact on the equity as stated above already excludes the impact on transactions affecting profit and loss.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange (FX) rates. Managing FX risk includes monitoring of net FX position. Daily FX position is being monitored by the middle and back office. If the level reaches the trigger point, action is required to bring back the level to within the normal range. Also, the Bank has an integrated approach to risk management in relation to its foreign exchange activities. FX risk is reviewed together with other risks to determine the Bank's overall risk profile.

Foreign currency-denominated liabilities generally consist of: (a) foreign currency-denominated deposits in the Bank's FCDU, (b) accounts maintained in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, and (c) foreign currency-denominated borrowings appearing in the regular books of the Bank.

Foreign currency-denominated 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-denominated liabilities with the foreign currency-denominated assets held under the FCDU books. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency-denominated liabilities held under the FCDU books.

The Bank has significant exposure to US$ monetary assets and liabilities as of December 31, 2012 and 2011.

The tables below summarize the reasonable possible movement of the currency rate against each significant foreign currency with all other variables held constant on the statement of income (US$ against PHP).

	December 31, 2012	
Changes in foreign currency exchange rate	+5.5%	-5.5%
Effect on profit before tax	₱34,222,447	(₱34,222,447)

	December 31, 2011	
Changes in foreign currency exchange rate	+5.5%	-5.5%
Effect on profit before tax	₱7,147,404	(₱7,147,404)

Liquidity Risk
Liquidity risk arises when the Bank is unable to make a timely payment of any of its financial obligations to customers or counterparties in any currency. This may be due to the Bank's inability to liquidate assets or to obtain funding to meet its liquidity needs in a timely manner.

GM's liquidity management process, as carried out within the Bank and monitored by ALCO includes:

- Day-to-day funding managed by monitoring future cashflows to ensure that requirements can be met;
- Maintaining an adequate portfolio that can easily be liquidated as protection against any unforeseen interruption in cashflows;
- Monitoring of liquidity ratios against internal and regulatory requirements; and
- Monitoring of gaps arising from mismatched maturity of assets and liabilities.

The Bank formulated a Liquidity Management Framework outlining the approaches in managing liquidity risk. The framework includes comprehensive discussion on the oversight structure and respective roles and responsibilities, liquidity measurement, policies and guidelines, monitoring and controlling of liquidity risk and contingency funding plan.

Analysis of financial assets and financial liabilities by remaining contractual maturities
The tables below show the maturity profile of the Bank's financial assets and financial liabilities based on contractual undiscounted cash flows:

Financial assets
Analysis of equity and debt securities at FVPL into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier the expected date the assets will be realized (in thousands).

	December 31, 2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	₱1,125,071	₱-	₱-	₱-	₱-	₱1,125,071
Due from BSP	5,393,099	252,196	-	-	-	5,645,295
Due from other banks	1,393,767	-	-	-	-	1,393,767
Interbank loans receivable and SPURA	-	117,234	10,835	-	-	128,069
Financial assets at FVPL:						
HFT investments:	-	-	-	-	-	-
Government securities	1,200,058	-	-	-	-	1,200,058
Derivative assets	-	40,922	2,628	-	-	43,550
	1,200,058	40,922	2,628	-	-	1,243,608
AFS investments:						
Private debt securities	13,978	131	7,645	21,754	1,276,382	1,319,890
Government	44,188	12,461	31,984	89,557	4,946,765	5,124,955
Quoted equity	12,407	-	-	-	-	12,407
Unquoted	3,486	-	-	-	-	3,486
HTM investments:						
Government	61,750	27,069	38,054	126,872	4,280,729	4,534,474
Private	-	12,315	6,188	18,503	589,142	626,148
Loans and receivables:						
Loans:						
Corporate	684,185	1,042,121	1,639,569	560,343	8,431,802	12,358,020
Commercial	543,168	1,358,085	538,291	1,632,058	3,748,607	7,820,209
Consumer:						
Housing loans	57,983	172,759	345,561	691,667	5,214,713	6,482,683
Auto loans	54,842	40,705	131,445	611,903	10,248,010	11,086,905
Others	69,795	44,035	168,004	294,958	1,000,024	1,576,816
	1,409,973	2,657,705	2,822,870	3,790,929	28,643,156	39,324,633
Unquoted debt securities:						
Private	-	-	-	-	41,622	41,622
Government	189,167	-	-	51	230	189,448
	189,167	-	-	51	41,852	231,070
Sales contract receivable:						
Individual	1,132	76	465	398	214,769	216,840
Corporate	14,425	-	12,847	-	15,522	42,794
	15,557	76	13,312	398	230,291	259,634
Accounts receivable:						
Corporate	45,291	8,157	22,820	36,348	1,148,145	1,260,761
Individual	31,432	-	-	-	-	31,432
	76,723	8,157	22,820	36,348	1,148,145	1,292,193
Accrued interest receivable	128,222	63,309	30,439	19,763	136,860	378,593
RCOCI	60,275	-	-	-	-	60,275
	₱11,127,721	₱3,191,575	₱2,986,775	₱4,104,175	₱41,293,322	₱62,703,568

(Forward)

	December 31, 2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial Liabilities						
Deposit liabilities:						
Demand	**₱9,266,688**	**₱-**	**₱-**	**₱-**	**₱-**	**₱9,266,688**
Savings	**12,858,727**	**1,045,111**	**47,735**	**28,954**	**-**	**13,980,527**
Time	**5,072,250**	**2,171,739**	**1,320,064**	**2,507,543**	**3,922,985**	**14,994,581**
	27,197,665	**3,216,850**	**1,367,799**	**2,536,497**	**3,922,985**	**38,241,796**
Financial liabilities at FVPL:						
Interest rate swaps	**2,423**	**8,788**	**11,742**	**65,091**	**623,995**	**712,039**
Bills payable	**5,412,228**	**205,435**	**135,811**	**-**	**-**	**5,753,474**
Manager's checks	**262,309**	**-**	**-**	**-**	**-**	**262,309**
Accrued interest payable	**74,324**	**20,154**	**10,710**	**8,383**	**-**	**113,571**
Accounts payable	**230,430**	**-**	**-**	**-**	**-**	**230,430**
Due to Treasurer of the Philippines	**-**	**-**	**-**	**-**	**10,796**	**10,796**
	33,179,379	**3,451,227**	**1,526,062**	**2,609,971**	**4,557,776**	**45,324,415**
Contingent liabilities	**435,519**	**-**	**-**	**-**	**-**	**435,519**
	₱33,614,898	**₱3,451,227**	**₱1,526,062**	**₱2,609,971**	**₱4,557,776**	**₱45,759,934**

	December 31, 2011					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	₱821,617	₱-	₱-	₱-	₱-	₱821,617
Due from BSP	2,014,174	1,922,943	-	-	-	3,937,117
Due from other banks	736,260	-	-	-	-	736,260
Interbank loans receivable and SPURA	1,135,376	11,394	-	-	-	1,146,770
Financial assets at FVPL:						
HFT investments:						
Government securities	6,280	85	835,707	-	-	842,072
Derivative assets	31,022	-	-	-	-	31,022
	37,302	85	835,707	-	-	873,094
AFS investments:						
Private debt securities	13,816	27,632	41,448	374,992	24,998,956	25,456,844
Government securities	19,607	48,214	58,820	117,641	16,360,614	16,604,896
Quoted equity securities	-	-	-	-	12,818	12,818
Unquoted equity securities	-	-	-	-	3,164	3,164
(Forward)						

	December 31, 2011					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
HTM investments:						
Government securities	₱4,667	₱9,335	₱145,522	₱38,304	₱4,959,842	₱5,157,670
Private debt securities	25,855	130,709	17,155	42,310	1,255,057	1,471,086
Loans and receivables:						
Loans:						
Corporate	879,140	563,224	261,687	783,453	6,714,101	9,201,605
Commercial	405,589	862,496	710,014	1,493,566	2,055,674	5,527,339
Consumer:						
Housing loans	68,909	203,758	422,218	797,026	7,348,514	8,840,425
Auto loans	26,102	34,260	99,106	457,134	6,698,698	7,315,300
Others	46,199	27,648	133,731	108,465	899,495	1,215,538
	1,425,939	1,691,386	1,626,756	3,639,644	23,716,482	32,100,207
Unquoted debt securities:						
Private	189,168	2	3	7	474	189,654
Government	57	113	170	13,765	37,799	51,904
	189,225	115	173	13,772	38,273	241,558
Sales contract receivable:						
Individual	3,498	5,278	7,963	15,593	129,546	161,878
Corporate	12,370	448	667	1,309	22,974	37,768
	15,868	5,726	8,630	16,902	152,520	199,646
Accounts receivable:						
Corporate	2,685	5,285	18,124	26,659	1,049,448	1,102,201
Individual	14,646	-	-	-	-	14,646
	17,331	5,285	18,124	26,659	1,049,448	1,116,847
Accrued interest receivable	150,566	67,715	9,991	10,231	131,783	370,286
RCOCI	3,702	-	-	-	-	3,702
	₱6,611,305	₱3,920,539	₱2,762,326	₱4,280,455	₱72,678,957	₱90,253,582
Financial Liabilities						
Deposit liabilities:						
Demand	₱8,818,581	₱-	₱-	₱-	₱-	₱8,818,581
Savings	10,235,557	738,620	43,629	7,621	-	11,025,427
Time	2,854,959	2,543,513	1,107,149	1,319,796	2,492,042	10,317,459
	21,909,097	3,282,133	1,150,778	1,327,417	2,492,042	30,161,467
Financial liabilities at FVPL:						
Interest rate swaps	2,968	11,344	13,639	70,064	746,115	844,130
Bills payable	8,398,410	877,818	145,450	-	-	9,421,678
Manager's checks	250,969	-	-	-	-	250,969
Accrued interest payable	1,208	18,727	9,439	9,448	114,929	153,751
Accounts payable	114,770	-	26	-	78	114,874
Due to Treasurer of the Philippines	-	-	-	-	10,796	10,796
Total liabilities	30,677,422	4,190,022	1,319,332	1,406,929	3,363,960	40,957,665
Contingent liabilities	-	-	-	-	1,367,443	1,367,443
	₱30,677,422	₱4,190,022	₱1,319,332	₱1,406,929	₱4,731,403	₱42,325,108

5. Fair Value Measurement

The following table presents a comparison by category of carrying amounts and estimated fair value of the Bank's financial instruments:

	December 31, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Cash and other cash items	**₱1,125,070,812**	**₱1,125,070,812**	₱821,617,120	₱821,617,120
Due from BSP	**5,645,295,468**	**5,645,295,468**	3,935,991,172	3,935,991,172
Due from other banks	**1,393,767,152**	**1,393,767,152**	736,260,302	736,260,302
Interbank loans receivable and SPURA	**128,068,422**	**128,068,422**	1,146,456,099	1,146,456,099
Financial assets at FVPL:				
HFT investments:				
Government debt securities	**1,200,058,094**	**1,200,058,094**	819,108,046	819,108,046
Derivative assets	**43,550,410**	**43,550,410**	31,022,262	31,022,262
AFS investments:				
Government securities	**2,447,503,177**	**2,447,503,177**	3,612,693,862	3,612,693,862
Private debt securities	**1,306,335,382**	**1,306,335,382**	5,483,228,378	5,483,228,378
Quoted equity securities	**12,407,120**	**12,407,120**	12,817,708	12,817,708
Unquoted equity securities	**3,486,217**	**3,486,217**	3,163,900	3,163,900
	3,769,731,896	**3,769,731,896**	9,111,903,848	9,111,903,848
HTM investments:				
Government securities	**3,289,672,373**	**3,735,572,359**	3,562,149,223	3,766,655,483
Private debt securities	**560,400,101**	**592,514,827**	730,056,321	748,680,771
	3,850,072,474	**4,328,087,186**	4,292,205,544	4,515,336,254
Loans and receivables:				
Loans:				
Corporate	**₱10,102,899,566**	**₱10,485,793,869**	₱ 7,806,770,413	₱ 7,511,307,966
Commercial	**6,951,111,590**	**7,242,169,510**	4,641,395,348	4,812,498,073
Consumer:				
Auto loans	**7,951,438,776**	**9,941,711,612**	5,299,741,599	6,507,823,730
Housing loans	**4,953,338,826**	**5,387,902,056**	4,342,601,546	3,011,793,135
Others	**1,200,424,865**	**1,500,182,520**	939,939,888	1,157,359,310
	31,159,213,623	**34,557,759,567**	23,030,448,794	23,000,782,214
Unquoted debt securities:				
Private	**36,426,755**	**39,755,352**	49,924,321	90,691,326
Government	**49,276,778**	**49,328,188**	56,369,530	56,219,340
	85,703,533	**89,083,540**	106,293,851	146,910,666
Accounts receivables:				
Corporate	**554,864,549**	**644,284,006**	532,905,765	632,934,033
Individual	**21,458,368**	**31,431,988**	5,473,658	14,646,002
	576,322,917	**675,715,994**	538,379,423	647,580,035
Accrued interest receivable	**340,743,811**	**378,592,956**	345,587,034	370,285,571
Sales contract receivable:				
Individual	**188,671,555**	**220,482,035**	159,259,688	113,435,599
Corporate	**38,345,602**	**23,388,331**	24,125,195	12,484,550
	227,017,157	**243,870,366**	183,384,883	125,920,149

(Forward)

	December 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
RCOCI	**60,275,438**	**60,275,438**	3,701,736	3,701,736
	₱49,604,891,207	**₱53,638,927,301**	₱45,102,360,114	₱45,412,875,474
Financial Liabilities				
Deposit liabilities:				
Demand	**₱9,299,688,029**	**₱9,299,688,029**	₱8,818,581,066	₱8,818,581,066
Savings	**13,939,546,276**	**13,939,546,276**	11,024,881,253	11,024,881,253
Time	**13,924,111,655**	**14,192,065,927**	9,832,314,245	9,974,870,948
	37,163,345,960	**37,431,300,232**	29,675,776,564	29,818,333,267
Financial liabilities at FVPL:				
Derivative liabilities	**435,519,107**	**435,519,107**	491,332,462	491,332,462
Bills payable	**5,749,177,100**	**5,749,576,951**	9,416,832,000	9,410,631,533
Manager's checks	**262,308,796**	**262,308,796**	250,969,348	250,969,348
Accrued interest payable	**113,570,991**	**113,570,991**	108,551,519	108,551,519
Outstanding acceptances	**3,189,355**	**3,189,355**	210,667,300	210,667,300
Accounts payable	**230,430,358**	**230,430,358**	114,873,948	114,873,948
Due to Treasurer of the Philippines	**10,795,943**	**10,795,943**	10,795,943	10,795,943
	₱43,968,337,610	**₱44,236,691,733**	₱40,279,799,084	₱40,416,155,320

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

Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPURA - The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits and floating rate placements.

Debt securities (Financial asset at FVPL, AFS and HTM investments) - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - Fair values are based on quoted market prices. However, for unquoted equity securities with no observable current market transactions and no reliable basis of fair value, the Bank measures them at cost less allowance for impairment losses.

Loans and receivables (except for RCOCI) - Fair values of loans, loan-related accounts receivables, accrued interest receivables and receivable from an affiliate are estimated using the discounted cash flow model, using the Bank's current incremental lending rates for similar types of loans and receivables.

RCOCI - Quoted market prices are not readily available for these assets. They are reported at carrying value and are not significant in relation to the Bank's total assets.

Derivative instruments - Fair values are estimated using discounted cash flow model.

Deposit liabilities (demand and savings deposits) and other liabilities - Carrying amount approximate fair values considering that these are currently due and demandable.

Deposit liabilities (special savings deposits and time deposits) and bills payable - Fair values are estimated using the discounted cash flow methodology.

Other financial liabilities - The carrying values approximate fair values due to the relatively short-term maturities of these liabilities.

Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Bank held the following financial instruments measured at fair value:

	December 31, 2012		
	Level 1	**Level 2**	**Total**
Financial Assets			
Financial assets at FVPL:			
HFT investments:			
Government securities	**₱1,200,058,094**	**₱-**	**₱1,200,058,094**
Derivative assets	**-**	**43,550,410**	**43,550,410**
	₱1,200,058,094	**₱43,550,410**	**₱1,243,608,504**
AFS investments:			
Private debt securities	**₱1,306,335,382**	**₱-**	**₱1,306,335,382**
Government securities	**2,447,503,177**	**-**	**2,447,503,177**
Equity securities	**12,407,120**	**-**	**12,407,120**
Total AFS investments	**₱3,766,245,679**	**₱-**	**₱3,766,245,679**
Financial Liabilities			
Financial liabilities at FVPL:			
Derivative liabilities	**₱-**	**₱435,519,107**	**₱ 435,519,107**

	December 31, 2011		
	Level 1	Level 2	Total
Financial Assets			
Financial assets at FVPL:			
HFT investments:			
Government securities	₱819,108,046	₱-	₱ 819,108,046
Derivative assets	-	31,022,262	31,022,262
	₱ 819,108,046	₱ 1,022,262	₱850,130,308
AFS investments:			
Private debt securities	₱5,483,228,378	₱-	₱ 5,483,228,378
Government securities	3,612,693,862	-	3,612,693,862
Equity securities	12,817,709	-	12,817,709
Total AFS investments	₱9,108,739,949	₱-	₱9,108,739,949
Financial Liabilities			
Financial liabilities at FVPL:			
Derivative liabilities	₱-	₱491,332,462	₱ 491,332,462

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.

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.

There were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements for the periods ended December 31, 2012 and 2011.

The Bank has no level 3 financial instruments as of and for the periods ended December 31, 2012 and 2011.

6. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	2012	2011
HFT government securities	**₱1,200,058,094**	₱819,108,046
Derivative assets (Note 17)	**43,550,410**	31,022,262
	₱1,243,608,504	₱850,130,308

As of December 31, 2012 and 2011, net unrealized loss and gain, under 'Net trading gains (losses)' in the statement of income, from HFT government securities amounted to (₱2.6 million) and ₱6.9 million, respectively.

7. Available-for-Sale Investments

This account consists of investments in:

	2012	2011
Debt instruments:		
Government securities (Note 13)	**₱2,447,503,177**	₱3,612,693,862
Private	**1,306,335,382**	5,483,228,378
	3,753,838,559	9,095,922,240
Equity:		
Quoted	**₱12,407,120**	₱12,817,708
Unquoted	**3,486,217**	3,163,900
	15,893,337	15,981,608
	₱3,769,731,896	₱9,111,903,848

The movements in net unrealized gains (losses) on AFS investments are as follows:

	2012	2011
Balance at the beginning of the period	**(₱ 85,007,694)**	(₱ 39,537,119)
Changes in fair value taken to profit and loss (Note 21)	**(275,942,585)**	(38,790,221)
Changes in fair value recognized in equity	**408,908,346**	(1,151,196)
	47,958,067	(79,478,536)
Unamortized unrealized losses on reclassified AFS investments to HTM investments (Note 8)	**(3,887,341)**	(5,529,158)
	₱ 44,070,726	(₱ 85,007,694)

8. Held-to-Maturity Investments

This account consists of investments in:

	2012	2011
Government securities (Notes 13 and 27)	**₱3,289,672,373**	₱3,562,149,223
Private debt securities	**560,400,101**	730,056,321
	₱3,850,072,474	₱4,292,205,544

Reclassification of Financial Assets

In 2008, the global market experienced a substantial deterioration in market condition which includes credit crunch and liquidity shortage. Thus, to mitigate the impact of the global financial crisis, the BSP issued Circular Nos. 626 and 628 which allowed banks to reclassify their non-derivative financial assets from HFT and AFS to HTM investments. Also, amendments to PAS 39 and PFRS 7 provide guidance on the proper accounting treatment and disclosure requirement on the allowed reclassification.

HTM investments amounting to US$6.0 million that were reclassified from AFS investments have the following PHP balances as of the relevant reporting period:

December 31, 2012

	Face value	**Cost as at reclassification date**	**Carrying Value**	**Fair value**	**Net unrealized loss**	**Amortization of premium**	**EIR**
Government securities	**₱246,300,000**	**₱317,919,827**	**₱256,909,728**	**₱297,780,395**	**₱3,887,341**	**₱3,540,227**	**6.69%-6.92%**

December 31, 2011

	Face value	Cost as at reclassification date	Carrying Value	Fair value	Net unrealized loss	Amortization of premium	EIR
Government securities	₱263,040,000	₱317,919,827	₱278,151,669	₱318,450,691	₱5,529,158	₱4,156,044	6.69%-6.92%

Had these securities not been reclassified to HTM investments as of December 31, 2012, AFS investments carrying value would have increased by ₱40.9 million and net unrealized loss would have decreased by ₱47.6 million.

Had these securities not been reclassified to HTM investments as of December 31, 2011, AFS investments carrying value would have increased by ₱40.3 million and net unrealized loss would have decreased by ₱49.9 million.

9. Loans and Receivables

This account consists of:

	2012	2011
Loans:		
Corporate (Note 29)	**₱10,415,003,190**	₱8,095,322,090
Commercial (Note 29)	**7,119,190,652**	4,768,815,387
Consumer:		
Auto loans	**8,007,955,863**	5,322,634,506
Housing	**5,101,543,212**	4,483,888,647
Others	**1,239,961,902**	980,963,394
	31,883,654,819	23,651,624,024
	2012	2011
Less unearned discounts and other deferred income	**51,631,624**	45,891,560
	31,832,023,195	23,605,732,464
Unquoted debt securities:		
Government	**189,442,901**	189,606,034
Private	**36,426,755**	49,924,321
	225,869,656	239,530,355
Accounts receivable:		
Corporate (Note 29)	**654,090,156**	632,974,269
Individual	**31,431,988**	14,605,767
	685,522,144	647,580,036

	2012	2011
Less unearned discounts and other deferred income	**9,806,150**	9,806,150
	675,715,994	637,773,886
Accrued interest receivable (Note 29)	**378,592,956**	370,285,571
Sales contract receivable:		
Individual	**192,500,578**	162,945,862
Corporate	**40,490,265**	26,412,708
	232,990,843	189,358,570
	2012	2011
RCOCI	**60,275,438**	3,701,736
Miscellaneous	**325,943,536**	325,943,536
	33,731,411,618	25,372,326,118
Less allowance for credit losses	**1,282,135,139**	1,164,530,397
	₱32,449,276,479	₱24,207,795,721

	2012	2011
Loans consist of:		
Loans and discounts	**₱29,833,017,342**	₱22,136,682,569
Customers' liabilities and other loans	**1,320,129,777**	976,584,114
Bills purchased (Note 16)	**419,469,569**	242,284,604
Restructured loans	**245,550,666**	239,071,576
Agrarian and other agricultural credit loans	**65,487,465**	57,001,161
	₱31,883,654,819	₱23,651,624,024

Unearned discounts and other deferred income include deferred interest income on restructured loans amounting to ₱22.0 million and ₱11.4 million as of December 31, 2012 and 2011.

Movements in the allowance for credit losses follow:

	December 31, 2012								
	Corporate Loans	**Commercial Loans**	**Housing Loan**	**Auto Loan**	**Accounts Receivable**	**Sales Contract Receivable**	**Unquoted Debt Secrurities**	**Miscellaneous***	**Total**
Balance at beginning of period	**₱264,483,668**	**₱117,926,293**	**₱140,290,149**	**₱22,892,908**	**₱99,394,462**	**₱5,973,686**	**₱133,236,504**	**₱380,332,727**	**₱1,164,530,397**
Provision for credit losses	**25,845,030**	**61,784,790**	**6,931,306**	**36,054,971**	**393,668**	**-**	**6,929,619**	**20,380,608**	**158,319,992**
Accounts written off	**-**	**(40,000,060)**	**-**	**(2,430,792)**	**(395,053)**	**-**	**-**	**(13,845,878)**	**(56,671,783)**
Reclassification/Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,956,533**	**15,956,533**
Balance at end of period	**₱290,328,698**	**₱139,711,023**	**₱147,221,455**	**₱56,517,087**	**₱99,393,077**	**₱5,973,686**	**₱140,166,123**	**₱402,823,990**	**₱1,282,135,139**
Individual impairment	**₱199,506,780**	**₱88,314,421**	**₱64,574,134**	**₱37,498,887**	**₱964,104**	**₱3,983,212**	**₱140,166,123**	**₱385,374,310**	**₱920,381,971**
Collective impairment	**90,821,918**	**51,396,602**	**82,647,321**	**19,018,200**	**98,428,973**	**1,990,474**	**-**	**17,449,680**	**361,753,16**
	₱290,328,698	**₱139,711,023**	**₱147,221,455**	**₱56,517,087**	**₱99,393,077**	**₱5,973,686**	**₱140,166,123**	**₱402,823,990**	**₱1,282,135,139**
Gross amount of loans and receivables individually determined to be impaired before deducting any individually assessed impairment allowance	**₱288,016,466**	**₱200,349,838**	**₱148,001,192**	**₱37,498,887**	**₱964,104**	**₱41,957,239**	**₱189,167,130**	**₱385,374,310**	**₱1,291,329,166**

	December 31, 2011								
	Corporate Loans	Commercial Loans	Housing Loan	Auto Loan	Accounts Receivable	Sales Contract Receivable	Unquoted Debt Secrurities	Miscellaneous*	Total
Balance at beginning of period	₱271,527,941	₱89,670,328	₱127,420,920	₱13,305,102	₱99,434,284	₱5,973,686	₱109,070,065	₱367,970,567	₱1,084,372,893
Provision for credit losses	27,750,535	28,255,965	12,869,229	10,226,952	-	-	24,166,439	13,412,291	116,681,411
Accounts written off	(34,908,823)	-	-	(639,146)	(39,822)	-	-	(1,055,143)	(36,642,934)
Reclassification/Others	114,015	-	-	-	-	-	-	5,012	119,027
Balance at end of period	₱264,483,668	₱117,926,293	₱140,290,149	₱22,892,908	₱99,394,462	₱5,973,686	₱133,236,504	₱380,332,727	₱1,164,530,397
Individual impairment	₱211,629,412	₱53,884,889	₱64,229,088	₱13,710,208	₱516,826	₱3,983,212	₱133,236,504	₱366,140,206	₱847,330,345
Collective impairment	52,854,256	64,041,404	76,061,061	9,182,700	98,877,636	1,990,474	-	14,192,521	317,200,052
	₱264,483,668	₱117,926,293	₱140,290,149	₱22,892,908	₱99,394,462	₱5,973,686	₱133,236,504	₱380,332,727	₱1,164,530,397
Gross amount of loans and receivables individually determined to be impaired before deducting any individually assessed impairment allowance	₱292,874,881	₱59,644,989	₱192,433,230	₱13,788,980	₱2,040,014	₱41,957,239	₱189,167,130	₱357,525,178	₱1,149,431,641

* Allowance for credit losses - miscellaneous includes allowance for accrued interest receivable, consumer loan - others and miscellaneous receivables.

The fair value of the collateral that the Bank holds relating to loans determined to be impaired as of December 31, 2012 and 2011 amounted to ₱578.9 million and ₱373.8 million, respectively.

Interest income on loans and receivables consists of:

	2012 (One Year)	2011 (Six Months)
Loans and discounts	**₱2,244,691,924**	₱9879,085,271
Customers' liabilities and other loans	**66,794,436**	16,158,645
Accounts receivable - PPI (Note 29)	**34,136,435**	17,615,722
Restructured loans	**11,383,775**	6,195,270
Sales contract receivable	**10,951,253**	5,459,296
Agrarian and other agricultural credit loans	**3,698,405**	3,193,686
Unquoted debt securities	**3,313,462**	3,952,519
	₱2,374,969,690	₱9931,660,409

Of the total peso-denominated loans of the Bank as of December 31, 2012 and 2011, 50.81% and 59.65%, respectively, are subject to periodic interest repricing. Remaining peso-denominated loans earned annual EIR ranging from 3.00% to 41.06% and from 4.75% to 41.36% for the periods ended December 31, 2012 and 2011, respectively.
Of the total foreign currency-denominated loans of the Bank as of December 31, 2012 and 2011, 95.52% and 95.11%, respectively, are subject to periodic interest repricing. Remaining foreign currency-denominated loans earned annual EIR of 2.25% for the periods ended December 31, 2012 and 2011.

All sales contract receivable as of December 31, 2012 and 2011 are subject to periodic interest repricing.

Regulatory Reporting
Under current banking regulations, banks with no unbooked valuation reserves and capital adjustments are allowed to exclude from nonperforming classification those loans classified as 'Loss' in the latest BSP examination, which are fully covered by allowance for credit losses, provided that interest on said loans shall not be accrued.

The Bank's non-performing loans (NPLs) not fully covered by allowance for credit losses follow:

	2012	2011
Total NPLs	**₱839,123,353**	₱712,801,898
Less NPLs fully covered by allowance for credit losses	**19,190,098**	56,950,170
	₱819,933,255	₱655,851,728

Under current BSP regulations, NPLs shall, as a general rule, refer to loan accounts 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 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 loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears or when the total amount of arrearages reaches twenty percent (20.00%) of the total receivable balance.

In the case of loans 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 loan shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total receivable balance.

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

NPLs classified as to secured and unsecured follows:

	2012	2011
Unsecured	**₱502,273,632**	₱568,930,140
Secured	**336,849,721**	143,871,758
	₱839,123,353	₱712,801,898

The following table shows the breakdown of loans as to secured and unsecured and the breakdown of secured loans as to type of security (amounts in thousands):

	December 31, 2012		December 31, 2011	
	Amount	**%**	Amount	%
Secured by:				
Chattel	**₱8,102,003**	**25.41**	₱5,327,502	22.52
Real estate	**1,841,701**	**5.78**	1,226,340	5.19
Deposits hold-out	**795,867**	**2.50**	442,805	1.87
	10,739,571	**33.69**	6,996,647	29.58
Unsecured	**21,144,084**	**66.31**	16,654,977	70.42
	₱31,883,655	**100.00**	₱23,651,624	100.00

Information on the concentration of credit as to industry on loans follows (amounts in thousands):

	December 31, 2012		December 31, 2011	
	Amount	**%**	Amount	%
Consumer	**₱8,521,645**	**26.73**	₱6,231,890	26.35
Real estate, renting and business services	**6,688,654**	**20.98**	5,593,177	23.65
Wholesale and retail trade	**5,660,895**	**17.75**	4,070,345	17.21
Manufacturing (various industries)	**2,688,276**	**8.43**	2,655,772	11.23
Financial intermediaries	**2,504,995**	**7.86**	2,230,671	9.43
Transportation, storage and communication	**1,860,874**	**5.84**	546,882	2.31
Electric, gas and water	**926,502**	**2.91**	1,424,963	6.02
Other community, social and personal activities	**878,855**	**2.76**	49,424	0.21
Hotel and restaurant	**795,721**	**2.50**	611,032	2.58
Mining and quarrying	**497,410**	**1.55**	20,494	0.09
Education	**357,359**	**1.12**	18,211	0.08

(Forward)

	December 31, 2012		December 31, 2011	
	Amount	**%**	Amount	%
Agriculture, hunting and forestry	**233,820**	**0.72**	89,592	0.38
Construction	**204,520**	**0.64**	63,380	0.27
Public administration and defense	**50,818**	**0.16**	38,102	0.16
Fishing	**11,200**	**0.04**	6,879	0.03
Health and social work	**2,111**	**0.01**	810	0.00
	₱31,883,655	**100.00**	₱3,651,624	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio.

Receivable from PPI (AR – PPI)
As of December 31, 2012 and 2011, receivable from PPI (included under Accounts Receivable - Corporate) had a carrying value of ₱517.5 million and ₱507.9 million, respectively. The receivable bears an interest rate based on the one month PDSTF plus 1.00%, repriceable every month. Under the Memorandum of Agreement dated September 15, 2009 between the Bank and PPI, PPI undertakes to settle the receivable within 10 years beginning October 1, 2009 until September 30, 2019.

The receivable from PPI is secured by deposit hold-out agreement, executed by MBB, amounting to $20.0 million. In the event that PPI fails to perform its obligation under the Agreement, and that the same is not cured or corrected within a period of thirty (30) days from notice by the Bank, the Bank is authorized by MBB to immediately offset and apply the deposit as partial or full payment of the obligation without need of demand.

10. Property and Equipment

The composition of and movements in this account follow:

	December 31, 2012				
	Condominium Units	**Furniture Fixtures and Equipment**	**Leasehold Improvements**	**Construction-in-Progress**	**Total**
Cost					
Balance at beginning of period	**₱294,032,193**	**₱449,209,827**	**₱160,815,185**	**₱-**	**₱904,057,205**
Additions	**-**	**72,049,961**	**131,100,333**	**17,543,972**	**220,694,266**
Disposals/write-off	**-**	**(6,174,223)**	**-**	**-**	**(6,174,223)**
Balance at end of period	**294,032,193**	**515,085,565**	**291,915,518**	**17,543,972**	**1,118,577,248**
Accumulated Depreciation and Amortization					
Balance at beginning of period	**61,989,867**	**345,568,300**	**100,516,775**	**-**	**508,074,942**
Depreciation and amortization	**18,850,412**	**37,810,674**	**25,979,928**	**-**	**82,641,014**
Disposals/write-off	**-**	**(4,876,002)**	**-**	**-**	**(4,876,002)**
Balance at end of period	**80,840,279**	**378,502,972**	**126,496,703**	**-**	**585,839,954**
Net Book Value at End of Period	**₱213,191,914**	**₱136,582,593**	**₱165,418,815**	**₱17,543,972**	**₱532,737,294**

	December 31, 2011				
	Condominium Units	Furniture Fixtures and Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost					
Balance at beginning of period	₱294,032,193	₱429,735,862	₱143,522,044	₱-	₱867,290,099
Additions	-	37,734,562	17,293,141	-	55,027,703
Disposals/write-off	-	(18,260,597)	-	-	(18,260,597)
Balance at end of period	294,032,193	449,209,827	160,815,185	-	904,057,205
Accumulated Depreciation and Amortization					
Balance at beginning of period	52,564,661	336,389,161	88,823,497	-	477,777,319
Depreciation and amortization	9,425,206	16,496,669	11,693,278	-	37,615,153
Disposals/write-off	-	(7,317,530)	-	-	(7,317,530)
Balance at end of period	61,989,867	345,568,300	100,516,775	-	508,074,942
Net Book Value at End of Period	₱32,042,326	₱103,641,527	₱60,298,410	₱-	₱395,982,263

Depreciation and amortization consist of:

	2012	2011
Property and equipment	**₱82,641,014**	₱37,615,153
Investment properties (Note 11)	**3,708,923**	1,737,273
Software costs (Note 12)	**4,151,848**	1,944,225
Other properties acquired (Note 12)	**16,357,905**	6,475,088
	₱106,859,690	₱47,771,739

As of December 31, 2012 and 2011, property and equipment of the Bank with gross carrying amounts of ₱395.1 million and ₱380.4 million, respectively, is fully depreciated but still being used.

11. Investment Properties

The composition of and movements in this account follow:

	December 31, 2012		
	Land	**Building**	**Total**
Cost			
Balance at beginning of period	**₱439,561,252**	**₱109,899,593**	**₱549,460,845**
Additions (Note 30)	**3,779,040**	**16,445,300**	**20,224,340**
Disposals	**(79,089,156)**	**(40,067,544)**	**(119,156,700)**
Balance at end of period	**364,251,136**	**86,277,349**	**450,528,485**
Accumulated Depreciation			
Balance at beginning of period	**-**	**94,413,946**	**94,413,946**
Depreciation	**-**	**3,708,923**	**3,708,923**
Disposals	**-**	**(34,723,646)**	**(34,723,646)**
Balance at end of period	**-**	**63,399,223**	**63,399,223**

	December 31, 2012		
	Land	**Building**	**Total**
Accumulated Impairment Loss			
Balance at beginning of period	**68,029,414**	**531,166**	**68,560,580**
Disposal	**(5,910,742)**	**(197,762)**	**(6,108,504)**
Provision (Reversal)	**(28,891,203)**	**4,337,333**	**(24,553,870)**
Balance at end of period	**33,227,469**	**4,670,737**	**37,898,206**
Net Book Value at End of Period	**₱331,023,667**	**₱18,207,389**	**₱349,231,056**

	December 31, 2011		
	Land	Building	Total
Cost			
Balance at beginning of period	₱459,992,836	₱114,125,829	₱574,118,665
Additions	700,080	4,418,400	5,118,480
Disposals	(21,131,664)	(8,644,636)	(29,776,300)
Balance at end of period	439,561,252	109,899,593	549,460,845
Accumulated Depreciation			
Balance at beginning of period	-	98,517,722	98,517,722
Depreciation	-	1,737,273	1,737,273
Disposals	-	(5,841,049)	(5,841,049)
Balance at end of period	-	94,413,946	94,413,946
Accumulated Impairment Loss			
Balance at beginning of period	68,974,253	735,144	69,709,397
Transfers	(523,311)	(203,978)	(727,289)
Disposal	(421,528)	-	(421,528)
Balance at end of period	68,029,414	531,166	68,560,580
Net Book Value at End of Period	₱371,531,838	₱14,954,481	₱386,486,319

Annually, the management reviews the recoverable amount of investment properties. Several factors are considered such as real estate prices and physical condition of properties. The fair value of the investment properties as of December 31, 2012 and 2011 amounted to ₱0.6 billion and ₱0.7 billion, respectively, as determined by independent and/or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment properties taking into account the economic conditions prevailing at the time the valuations were made.

The Bank recognized rental income from investment properties, which are leased out under operating leases, amounting to ₱0.4 million and ₱0.1 million and for the periods ended December 31, 2012 and 2011. Direct operating expenses, included in the ‘Litigation and asset acquired expenses’ in the statements of income arising from investment properties amounted to ₱15.0 million and ₱9.3 million for the periods ended December 31, 2012 and 2011.‘Gain on sale of properties’ amounting to ₱52.2 million and ₱5.4 million includes gain on sale of investment properties. ‘Gain (loss) on foreclosure’ amounted to (₱32.1 million) and ₱0.4 million as of December 31, 2012 and 2011, respectively.

12. Other Assets

This account consists of:

	2012	2011
Chattel properties acquired	**₱94,558,005**	₱40,730,603
Prepaid interest	**42,371,481**	20,656,409
Prepaid expenses	**25,958,953**	10,365,043
Software costs	**14,127,652**	12,116,090
Sundry debits	**13,564,597**	4,491,812
Documentary stamps	**8,979,926**	5,784,817
Miscellaneous	**82,038,155**	39,143,575
	₱281,598,769	₱133,288,349

Prepaid interest as of December 31, 2012 and 2011 represents advance interest payments on certain time deposit product.

As of December 31, 2012 and 2011, miscellaneous includes rental and security deposits with a total amount of ₱41.7 million and ₱3.7 million, respectively.

Movements in software costs follow:

	2012	2011
Cost		
Balance at beginning of period	**₱56,015,725**	₱43,836,105
Additions	**6,163,410**	12,179,620
Balance at end of period	**62,179,135**	56,015,725
Accumulated Amortization		
Balance at beginning of period	**43,899,635**	41,955,410
Amortization	**4,151,848**	1,944,225
Balance at end of period	**48,051,483**	43,899,635
Net Book Value at End of Period	**₱14,127,652**	₱12,116,090

Software costs of the Bank with gross carrying amount of ₱39.4 million and ₱35.7 million as of December 31, 2012 and 2011, respectively, is fully amortized but still being used.

Movements in chattel properties acquired follow:

	2012	2011
Cost		
Balance at beginning of period	**₱51,039,382**	₱36,741,503
Additions	**111,095,190**	37,226,880
Disposals	**(51,428,783)**	(22,929,001)
Balance at end of period	**110,705,789**	51,039,382
Accumulated Depreciation		
Balance at beginning of period	**10,308,779**	7,396,096
Depreciation	**16,357,905**	6,475,088
Disposals	**(10,970,039)**	(3,562,405)
Balance at end of period	**15,696,645**	10,308,779
Accumulated Impairment Loss		
Balance at beginning of period	**-**	-
Provision	**451,139**	-
Balance at end of period	**451,139**	-
Net Book Value at End of Period	**₱94,558,005**	₱40,730,603

13. Deposit Liabilities

Under existing BSP regulations, non-FCDU deposit liabilities of the Bank are subject to liquidity reserves equivalent to 11.00% for the periods ended December 31, 2012 and 2011 and statutory reserves equivalent to 10.00% for the periods ended December 31, 2012 and 2011. As of December 31, 2012 and 2011, the Bank is in compliance with such regulations.

On March 29, 2012, the BSP issued Circular No. 753 mandating the unification of the statutory/legal and liquidity reserves requirement on deposit liabilities and deposit substitutes. As such, effective the reserve week starting April 6, 2012, non-FCDU deposit liabilities of the Bank are subject to required reserves equivalent to 18.0%. In compliance with this Circular, government securities which are used as compliance with the regular and/or liquidity reserve requirements shall continue to be eligible until they mature and cash in vault shall no longer be included as reserve. The required reserves shall be kept in the form of deposits maintained in the Demand Deposit Accounts (DDAs) with the BSP. Further, deposits maintained with the BSP in compliance with the reserve requirement shall no longer be paid interest. The following assets have been considered as part of available reserves:

	2012	2011
Cash and other cash items	**₱-**	₱742,047,259
Due from BSP	**5,645,295,468**	3,935,991,172
AFS investments	**15,208,579**	14,309,130
HTM investments	**66,114,833**	58,961,922
	₱5,726,618,880	₱4,751,309,483

Interest expense on deposit liabilities consists of:

	2012	2011
Time	₱403,824,355	₱159,795,189
Savings	238,187,582	61,357,929
Demand	98,906,001	40,120,325
	₱740,917,938	₱261,273,443

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 6.50% for the periods ended December 31, 2012 and 2011, while foreign currency-denominated deposit liabilities earned annual fixed interest rates ranging from 0.10% to 2.5% and 0.10% to 2.1% for the periods ended December 31, 2012 and 2011, respectively.

14. Bills Payable

This account consists of borrowings from foreign banks including related parties amounting to ₱5.7 billion and ₱9.4 billion as of December 31, 2012 and 2011, respectively. These are unsecured borrowings by the Bank.

Dollar-denominated borrowings are subject to annual EIR ranging from 0.20% to 1.53% for the periods ended December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, the terms of the borrowings range from 1 to 186 days.

The Bank has unused borrowing facility from related parties amounting to US$154.7 million and US$38.2 million as of December 31, 2012 and 2011.

Interest expense on bills payable and other borrowings consists of:

	2012	2011
Bills payable	₱95,913,525	₱41,411,059
Others	158,933	94,331
	₱96,072,458	₱41,505,390

15. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2012	2011
Accrued other expenses payable	₱151,139,350	₱204,716,327
Accrued interest payable (Note 29)	113,570,991	108,551,519
Accrued other taxes and licenses payable	24,775,054	15,874,902
	₱289,485,395	₱329,142,748

Accrued other expenses includes accrual for various administrative expenses and cost on rent, salaries and wages, professional fees and information technology.

16. Other Liabilities

This account consists of:

	2012	2011
Sundry credits	₱420,666,134	₱241,554,037
Accounts payable	230,430,358	114,873,948
Other deferred credits	68,089,564	62,843,095
Net pension liability (Note 23)	51,763,091	18,956,511
Other credits dormant	30,076,388	27,759,843
Withholding taxes payable	20,255,593	14,031,617
Due to the Treasurer of the Philippines	10,795,943	10,795,943
Miscellaneous	9,259,642	1,435,120
	₱841,336,713	₱492,250,114

Sundry credits represent the contra account of the bills purchased classified as loans granted by the Bank to its depositors.

17. Derivative Financial Instruments

As of December 31, 2012 and 2011, the Bank's derivative instruments represent interest rate swaps and currency forwards used by the Bank to manage exposures arising from changes in interest rates and foreign exchange rates.

The table sets out the information about the Bank's derivative financial instruments and their related fair values, together with the notional amounts:

	December 31, 2012			December 31, 2011		
	Notional Amount	Derivative Asset	Derivative Liability	Notional Amount	Derivative Asset	Derivative Liability
Interest rate swaps	₱-	₱-	₱-	₱38,461,538	₱-	₱130,002
Interest rate swaps	US$81,000,000	-	380,986,098	US$84,000,00	-	463,200,402
Forward contracts	₱8,776,490,000	43,550,410	54,533,009	₱13,343,544,650	31,022,262	28,002,058
		₱43,550,410	₱435,519,107		₱31,022,262	₱491,332,462

For peso-denominated interest rate swaps, the Bank pays fixed quarterly interest ranging from nil and from 6.39% to 10.53% for the periods ended December 31, 2012 and 2011 and receives 3-month Philippine Reference Rate.

For foreign currency-denominated interest rate swaps, the Bank pays fixed semi-annual interests ranging from 6.00% to 11.38% and quarterly interests at 2.25% to 10.53% for the periods ended December 31, 2012 and 2011, respectively, and receives semi-annual interests based on 6-month LIBOR and quarterly interests based on 3-month LIBOR and 3-month PHIREF.

The movements in the Bank's derivative financial instruments follow:

	2012	2011
Derivative Liabilities		
Balance at beginning of period	₱491,332,462	₱383,725,334
Changes in fair value (Note 21)	(27,799,942)	204,211,340
Net settlement	(28,013,413)	(96,604,212)
	₱435,519,107	₱491,332,462
Derivative Assets		
Balance at beginning of period	₱31,022,262	₱1,760,756
Changes in fair value (Note 21)	12,528,148	134,072,328
Net settlement	-	(104,810,822)
Balance at end of period	₱43,550,410	₱31,022,262

18. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

	December 31, 2012			December 31, 2011		
	Up to One Year	Over One Year	Total	Up to One Year	Over One Year	Total
Financial Assets						
Cash and other cash items	₱1,125,070,812	₱–	₱1,125,070,812	₱821,617,120	₱–	₱821,617,120
Due from BSP	5,645,295,468	–	5,645,295,468	3,935,991,172	–	3,935,991,172
Due from other banks	1,393,767,152	–	1,393,767,152	736,260,302	–	736,260,302
Interbank loans receivable and SPURA	128,068,422	–	128,068,422	1,146,456,099	–	1,146,456,099
Financial assets at FVPL:						
HFT investments:						
Government securities	1,200,058,094	–	1,200,058,094	819,108,046	–	819,108,046
Derivative assets	43,550,410	–	43,550,410	31,022,262	–	31,022,262
	1,243,608,504	–	1,243,608,504	850,130,308	–	850,130,308
AFS investments:						
Private debt securities	330,866,284	975,469,098	1,306,335,382	290,996,330	5,192,232,048	5,483,228,378
Government debt securities	217,889,717	2,229,613,460	2,447,503,177	8,996,630	3,603,697,232	3,612,693,862
Private equity securities:						
Quoted	12,407,120	–	12,407,120	12,817,708	–	12,817,708
Unquoted	3,486,217	–	3,486,217	3,163,900	–	3,163,900
	564,649,338	3,205,082,558	3,769,731,896	315,974,568	8,795,929,280	9,111,903,848

(Forward)

	December 31, 2012			December 31, 2011		
	Up to One Year	Over One Year	Total	Up to One Year	Over One Year	Total
HTM investments:						
Government debt securities	₱29,986,687	₱3,259,685,686	₱3,289,672,373	₱130,813,772	₱3,431,335,451	₱3,562,149,223
Private debt securities	–	560,400,101	560,400,101	135,774,672	594,281,649	730,056,321
	29,986,687	3,820,085,787	3,850,072,474	266,588,444	4,025,617,100	4,292,205,544
Loans and receivables:						
Loans:						
Corporate	3,835,398,702	6,579,604,488	10,415,003,190	2,469,847,942	5,625,474,148	8,095,322,090
Commercial	3,953,830,930	3,165,359,722	7,119,190,652	3,366,220,893	1,402,594,494	4,768,815,387
Consumer:						
Auto loans	1,166,817,715	6,841,138,148	8,007,955,863	561,776,441	4,760,858,065	5,322,634,506
Housing	63,818,749	5,037,724,463	5,101,543,212	168,010,658	4,315,877,989	4,483,888,647
Others	539,396,207	700,565,695	1,239,961,902	301,854,771	679,108,623	980,963,394
	9,559,262,303	22,324,392,516	31,883,654,819	6,867,710,705	16,783,913,319	23,651,624,024
Unquoted debt instruments:						
Government	189,217,624	225,277	189,442,901	184,798,129	4,807,905	189,606,034
Private	–	36,426,755	36,426,755	12,166,915	37,757,406	49,924,321
	189,217,624	36,652,032	225,869,656	196,965,044	42,565,311	239,530,355
Sales contract receivable:						
Corporate	26,723,121	13,767,144	40,490,265	16,763,657	9,649,051	26,412,708
Individual	2,018,224	190,482,354	192,500,578	27,608,864	135,336,998	162,945,862
	28,741,345	204,249,498	232,990,843	44,372,521	144,986,049	189,358,570
Accounts receivable:						
Corporate	142,452,483	511,637,673	654,090,156	135,480,666	497,493,603	632,974,269
Individual	31,431,988	–	31,431,988	14,605,767	-	14,605,767
	173,884,471	511,637,673	685,522,144	150,086,433	497,493,603	647,580,036
Accrued interest receivable	378,592,956	–	378,592,956	370,285,571	-	370,285,571
RCOCI	60,275,438	–	60,275,438	3,701,736	-	3,701,736
Miscellaneous	325,943,536	–	325,943,536	325,943,536	-	325,943,536
	10,715,917,673	23,076,931,719	33,792,849,392	7,959,065,546	17,468,958,282	25,428,023,828
	20,846,364,056	30,102,100,064	50,948,464,120	16,032,083,559	30,290,504,662	46,322,588,221
Nonfinancial Assets						
Property and equipment	–	532,737,294	532,737,294	–	395,982,263	395,982,263
Investment properties	–	349,231,056	349,231,056	–	386,486,319	386,486,319
Other assets	–	281,598,769	281,598,769	–	133,288,349	133,288,349
	–	1,163,567,119	1,163,567,119	–	915,756,931	915,756,931
Less: Allowance for credit losses	–	–	1,282,135,139	–	–	1,164,530,397
Unearned discounts and other deferred income	–	–	61,437,774	–	–	55,697,710
	–		1,343,572,913	–		1,220,228,107
Total Assets	20,846,364,056	31,265,667,183	50,768,458,326	16,032,083,559	31,206,261,593	46,018,117,045
Financial Liabilities						
Deposit liabilities:						
Demand	₱9,299,688,029	₱–	₱9,299,688,029	₱8,818,581,066	₱–	₱8,818,581,066
Savings	13,939,546,276		13,939,546,276	11,024,881,253	–	11,024,881,253
Time	10,633,522,825	3,290,588,830	13,924,111,655	5,192,407,010	4,639,907,235	9,832,314,245
	33,872,757,130	3,290,588,830	37,163,345,960	25,035,869,329	4,639,907,235	29,675,776,564

(Forward)

	December 31, 2012			December 31, 2011		
	Up to One Year	Over One Year	Total	Up to One Year	Over One Year	Total
Financial liabilities at FVPL:						
Derivative liabilities	54,533,009	380,986,098	435,519,107	1,120,112	490,212,350	491,332,462
Bills payable	5,749,177,100	–	5,749,177,100	9,416,832,000	–	9,416,832,000
Manager's checks	262,308,797	–	262,308,797	250,969,348	–	250,969,348
Accrued interest payable	95,078,270	18,492,721	113,570,991	37,821,099	70,730,420	108,551,519
Outstanding acceptances	3,189,355	–	3,189,355	210,667,301	–	210,667,301
Accounts payable	230,430,358	–	230,430,358	114,873,948	–	114,873,948
Due to Treasurer of the Philippines	–	10,795,943	10,795,943	-	10,795,943	10,795,943
	40,267,474,019	3,700,863,592	43,968,337,611	35,068,153,137	5,211,645,948	40,279,799,085
Nonfinancial Liabilities						
Income tax payable	143,876,594	–	143,876,594	16,463,628	–	16,463,628
Accrued taxes and other expenses	175,914,404	–	175,914,404	220,591,229	–	220,591,229
Other liabilities	559,143,264	40,967,148	600,110,412	366,580,223	–	366,580,223
	878,934,262	40,967,148	919,901,410	603,635,080	–	603,635,080
Total Liabilities	₱41,146,408,281	₱3,741,830,740	₱44,888,239,021	₱35,671,788,217	₱5,211,645,948	₱40,883,434,165

19. Capital Funds

The Bank's capital stock as of December 31, 2012 and 2011consists of:

Preferred stock - ₱3.7 par value	
"A" - Authorized and issued - 1,200,000 shares	₱4,440,000
"B" - Authorized and issued - 2,400,000 shares	8,880,000
"C" - Authorized - 291,400,000 shares	
Issued - 59,208,574 shares	219,071,724
Subscribed - 1,602,500 shares - net of subscriptions receivable of ₱5,781,250	148,000
	232,539,724
Common stock - ₱35.0 par value	
Authorized – 250,000,000 shares Issued	6,236,164,644
Subscribed - 11,380 shares - net of subscriptions receivable of ₱218,750	179,550
	6,236,344,194
	₱6,468,883,918

Preferred shares of stock are cumulative with a guaranteed quarterly dividend of 2.50%, nonparticipating, nonvoting and with preference in asset distribution and payable in full at par plus accumulated dividends in case of dissolution or liquidation. Dividends are declared at the discretion of the BOD.

Preferred Series "A" and "B" shares of stock are redeemable at the option of the Bank at par value plus unpaid accumulated dividends after 15 years from date of issue. Where the Bank exercises the option to redeem the shares, the holder will have an option to convert to new preferred shares or certificate of indebtedness in lieu of redemption. Preferred Series "B" shares of stock embraced in the increase in capitalization authorized under the resolution passed by stockholders on October 20, 1962, are redeemable after ten (10) years from date of issue and convertible, at the option of the holder, into voting common shares of stock in lieu of redemption. Both Preferred Series "A" and "B" shares of stock were issued on October 1, 1961.

Preferred Series "C" shares of stock have preference in payment of dividends over other preferred or common shares which have unpaid accumulated and accrued dividends, and are convertible into voting common stock at the option of the holder thereof, provided that such conversion be made only after 7-1/2 years from date of issue. Preferred Series "C" shares of stock were issued on September 14, 1974.

The rollforward analysis of common stock as of December 31, 2012 and 2011 follows:

	December 31, 2012		December 31, 2011	
	Shares	Amount	Shares	Amount
Common - P=35 par value				
Authorized	250,000,000	₱-	250,000,000	₱-
Issued and outstanding				
Balance at beginning of period	178,176,132	6,236,164,644	135,699,466	4,749,481,304
Additional issuance	-	-	42,476,666	1,486,683,340
Total issued and outstanding	178,176,132	6,236,164,644	178,176,132	6,236,164,644
Add: Subscribed shares, net of subscription receivable of ₱218,750	11,380	179,550	11,380	179,550
Ending balance	178,187,512	₱6,236,344,194	178,187,512	₱6,236,344,194

As of December 31, 2012 and 2011, dividends in arrears on cumulative preferred shares amounted to ₱891.8 million and ₱868.4 million, respectively.

Treasury shares consist of 5,130 common shares, 38,000 Preferred Series "A" shares of stock and 17,150 Preferred Series "B" shares of stock, which are carried at cost.

On July 23, 1997, the Monetary Board (MB) in its Resolution No. 924 approved the quasi-reorganization of the Bank subject to certain conditions which include, among others, restriction on declaration of dividends until such time that the amount of capital stock differential arising from the reduction in the par value closed to deficit is recovered through earnings.

On September 3, 2010, the BOD and the stockholders approved the amendment of the Articles of Incorporation of the Bank to increase its authorized common stock from 135,714,285.87 shares to 250,000,000 shares.

The increase in the Bank's authorized capital stock was approved by the BSP on May 20, 2011. On November 30, 2010 and December 2, 2010, the Bank received a total amount of USD50.0 million from its Parent Company as a deposit for stock subscription. On December 3, 2010, part of the deposit for stock subscription was converted to common stock amounting to ₱702.3 million or 20,066,189.57 shares. The remaining deposit for stock subscription amounting to ₱1.5 billion was converted to issued capital stock on November 24, 2011 as the Bank secured SEC approval on the increase in authorized capital stock on November 16, 2011.

Employee Stock Option Scheme (ESOS)

All employees of the Bank are entitled to a grant of stock options from MBB once they have been in service for two years. Options awarded to an employee that are made available immediately, with no vesting period, are expensed outright. Options which are exercisable based on the schedule in ESOS over a period of five years from the date of grant are expensed over the vesting period. The exercise price of the options is equal to the weighted average market price of the shares subject to a discount within the limit allowed by the relevant authorities but shall, in no event, be less than the par value of the shares. The option has a maximum contractual life of five years and has no cash settlement alternatives. The Maybank Group has not developed a past practice of cash settlement.

The fair value of the options granted is estimated on the date of grant using a binomial model, which takes into account the terms and conditions upon which the instruments were granted.

The plan has expired on August 25, 2009.

The following table lists the inputs to the model used as of the following grant dates:

	November 14, 2006	November 14, 2005	October 15, 2004	September 1, 2004
Dividend yield (%)	5.50	5.50	5.50	5.50
Expected volatility (%)	14.60	18.10	21.80	21.40
Historical volatility (%)	14.60	18.10	21.80	21.40
Risk-free interest rate (%)	3.30	3.46	3.62	3.77
Expected life of option (in years)	5.00	5.00	5.00	5.00
Exercise price (in MYR)	10.19	9.92	9.87	9.23
Weighted average share price (in MYR)	11.50	11.00	11.00	10.70

The expected volatility of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options grant were incorporated into the measurement of fair value.

Capital Management

The Bank manages its capital to ensure it complies with externally imposed capital requirements and maintains healthy capital ratios to support business growth and maximize shareholder value.

Regulatory Qualifying Capital

BSP, as the Bank's lead regulator, sets and monitors capital requirements. Under current banking regulations, the Bank's compliance with regulatory requirements and ratios is based on the "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects. Moreover, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than ten percent (10.00%). Qualifying capital and risk-weighted assets are computed based on BSP regulations. The Bank is also required to meet the minimum capital of P=2.4 billion.

The BSP prescribes certain sanctions for non-compliance with the minimum capital requirements depending on the degree of capital deficiency incurred by the Bank such as suspension of authority to invest in allied undertakings, branching privileges and declaration of dividends, among others.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the MB of the BSP. Risk-weighted assets are determined by assigning defined risk weights to amount of on-balance sheet exposures and to the credit equivalent amount of off-balance sheet exposures.

The gross regulatory qualifying capital is analyzed in two tiers which are Tier 1 (core) and Tier 2 (supplementary) capital. The Bank's Tier 1 capital is comprised of the common shares, retained earnings and current year profit less required deduction such as deferred income tax. The Tier 2 capital includes the preferred shares, net unrealized gains on AFS investments and general loan loss provision. The Bank has no outstanding deductible items from the gross regulatory qualifying capital as prescribed by the regulation.

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

The table below summarizes the Capital Adequacy Ratio (CAR) of the Bank as reported to the BSP as of December 31, 2012 and 2011 (amounts in thousands):

	2012	2011
Tier 1 capital	**₱5,644,969**	₱4,995,420
Tier 2 capital	**538,020**	460,645
Total Qualifying Capital	**₱6,182,989**	₱5,456,065
Risk-Weighted Assets	**₱49,311,524**	₱39,879,641
Tier 1 capital ratio	**11.45%**	12.53%
Total capital ratio	**12.54%**	13.68%

The Bank has complied with the CAR requirement throughout the year.

Internal Capital Adequacy Assessment Process (ICAAP)

In 2009, the BSP issued Circular No. 639 covering the ICAAP which supplements the BSP's risk-based capital adequacy framework under the BSP Circular No. 538. The Bank has a Board-approved ICAAP Framework with areas that cover Capital Management, Pillar 1 and Pillar 2 Risk Measurement, Minimum Internal Capital Requirement Calculation, Use of the ICAAP, Governance Structure, and Reporting Framework. The Bank complies with the required annual submission of updated ICAAP.

Surplus reserves of the Bank consist of reserve for:

	2012	2011
Self-insurance	**₱25,070,000**	₱25,070,000
Trust business	**8,258,840**	7,341,028
Contingencies	**3,500,000**	3,500,000
	₱36,828,840	₱35,911,028

In compliance with existing BSP regulations, 10.00% of the net profits realized by the Bank from its trust business is appropriated to surplus reserve. The yearly appropriation is required until the surplus reserve for trust business equals 20.00% of the Bank's regulatory capital.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Bank's personnel or third parties.

Financial Performance

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

	2012 (One Year)	2011 (Six Months)
Return on average equity	**11.25%**	4.28%
Return on average assets	**1.28%**	0.49%
Net interest margin	**2.53%**	2.10%

20. Interest Income on Financial Investments

This account consists of interest income on:

	2012 (One Year)	2011 (Six Months)
Financial assets at FVPL	**₱37,451,947**	₱24,519,915
AFS investments	**140,826,757**	140,423,075
HTM investments	**246,433,494**	131,464,135
	₱424,712,198	₱296,407,125

Peso-denominated HFT investments bear nominal interest rates ranging from 4.63% to 9.38% and 5.75% to 9.13% for the periods ended December 31, 2012 and 2011, respectively.

Peso-denominated AFS investments bear nominal interest rates ranging from 5.75% to 9.13% for the periods ended December 31, 2012 and 2011. Foreign currency-denominated AFS investments bear nominal interest rates ranging from 0.72% to 9.0% and from 0.47% to 10.63% for the periods ended December 31, 2012 and 2011, respectively.

Peso-denominated HTM investments bear nominal interest rates ranging from 5.75% to 12.38% for the periods ended December 31, 2012 and 2011. Foreign currency-denominated HTM investments bear nominal interest rates from 6.0% to 11.38% for the periods ended December 31, 2012 and 2011.

Interest income on AFS debt securities is net of amortization of premium amounting to ₱2.2 million and ₱24.7 million for the periods ended December 31, 2012 and 2011, respectively.

Interest income on HTM investments is net of amortization of premium amounting ₱47.7 million and ₱27.5 million for the periods ended December 31, 2012 and 2011, respectively.

21. Net Trading Gains (Losses)

This account consists of:

	2012 (One Year)	2011 (Six Months)
Financial instruments at FVPL:		
Derivatives (Note 17)	**₱40,328,090**	(₱70,139,012)
HFT investments (Note 6)	**(31,102,438)**	23,238,855
AFS investments (Note 7)	**275,942,585**	38,790,221
	₱285,168,237	(₱8,109,936)

22. Service Charges, Fees and Commissions

This account consists of:

	2012 (One Year)	2011 (Six Months)
Credit-related (Note 29)	**₱385,711,202**	₱161,703,421
Deposit-related	**65,135,869**	28,621,566
Others	**12,499,197**	8,272,902
	₱463,346,268	₱198,597,889

23. Pension Plan

The Bank provides defined benefit plans for all employees. Provisions for pension obligations are established for benefits payable in the form of retirement pensions. Benefits are dependent on years of service and the respective employee's final compensation. The most recent actuarial valuation was carried out on December 31, 2012. The present value of the defined benefit obligation and the related current service cost were measured using the Projected Unit Credit method.

The following table shows the actuarial assumptions of the Bank as of January 1, 2012 and 2011:

	2012	2011
Investment Rate	**4.50%**	4.50%
Salary Rate Increase	**8.00%**	8.00%
Discount Rate	**6.69%**	9.76%

As of December 31, 2012, the discount rate used in determining the present value of defined benefit obligation is 5.93%.

Pension expense (included in 'Compensation and fringe benefits' in the statements of income) consists of the following:

	2012	2011
Current service cost	**₱38,081,900**	₱10,537,800
Interest cost	**16,642,768**	7,856,150
Expected return on plan assets	**(5,267,287)**	(2,621,750)
Actuarial net loss	**7,474,099**	570,400
Total pension expense	**₱56,931,480**	₱16,342,600

The following table reconciles the funded status of defined benefit plans to the amounts recognized in the statement of financial position as of December 31, 2012 and 2011:

	2012	2011
Present value of defined benefit obligations	**₱216,441,600**	₱270,405,600
Fair value of plan assets	**(115,065,890)**	(119,771,100)
Present value of unfunded obligations	**101,375,710**	150,634,500
Unrecognized actuarial losses	**(49,612,619)**	(131,677,989)
Net pension liability	**₱51,763,091**	₱18,956,511

There are no reimbursement rights recognized as a separate asset as of December 31, 2012 and 2011.

The movements in the present value of defined benefit obligation (PVO) follow:

	2012	2011
Balance at beginning of period	**₱270,405,600**	₱160,986,836
Current service cost	**38,081,900**	10,537,800
Benefits paid	**(34,023,052)**	(6,639,818)
Interest cost	**16,642,768**	7,856,150
Actuarial (gain) loss	**(74,665,616)**	97,664,632
Balance at end of period	**₱216,441,600**	₱270,405,600

The movements in the fair value of plan assets follow:

	2012	2011
Balance at beginning of period	**₱119,771,100**	₱116,522,441
Benefits paid	**(34,023,052)**	(6,639,818)
Actual contributions	**24,124,900**	12,062,450
Expected return on plan assets	**5,267,287**	2,621,750
Actuarial loss on plan assets	**(74,345)**	(4,795,723)
Balance at end of period	**₱115,065,890**	₱119,771,100

The Bank expects to contribute ₱32.0 million to its defined benefit plan in 2013. Experience adjustments on plan assets amounted to ₱74.3 thousand for the period ended December 31, 2012 and ₱4.8 million for the period ended December 31, 2011.

The major categories of plan assets as a percentage of fair value of total plan assets follow:

	2012	2011
Deposit in banks	**60.89%**	73.80%
Debt securities and others	**39.11%**	26.20%
	100.00%	100.00%

Computation of the actual return on plan assets:

	2012	2011
Expected return on plan assets	**₱5,267,287**	₱2,621,750
Actuarial loss on plan assets	**(74,345)**	(4,795,723)
Actual return (loss) on plan assets	**₱5,192,942**	(₱2,173,973)

The movements in the net pension liability recognized in 'Other liabilities' in the statements of financial position follow:

	2012	2011
Balance at beginning of period	**₱18,956,511**	₱14,676,361
Pension expense	**56,931,480**	16,342,600
Actual contributions	**(24,124,900)**	(12,062,450)
Balance at end of period	**₱51,763,091**	₱18,956,511

Information on the Bank's defined benefit plan is as follows:

	December 31,		June 30,		
	2012	2011	2011	2010	2009
Present value of the defined benefit obligation	₱216,441,600	₱270,405,600	₱160,986,836	₱146,583,000	₱116,012,800
Fair value of plan assets	115,065,890	119,771,100	116,522,441	106,192,100	93,464,300
Deficit on plan assets	101,375,710	150,634,500	44,464,395	40,390,900	22,548,500
Experience adjustments arising on plan liabilities	(74,665,616)	97,664,632	-	1,625,500	14,769,500
Experience adjustments arising on plan assets	(74,345)	(4,795,723)	530,960	14,700	930,481

The Bank also has a defined contribution plan for certain employees. The pension expense recognized under this plan amounting to ₱32.8 million and ₱5.7 million for the periods ended December 31, 2012 and 2011, respectively, is included in 'Compensation and fringe benefits' in the statements of income.

24. Miscellaneous Income and Expense

Miscellaneous income consists of:

	2012 (One Year)	2011 (Six Months)
Trust fees (Note 29)	**₱9,178,125**	₱4,399,546
Others	**43,196,536**	10,515,522
	₱52,374,661	₱14,915,068

Others in 2012 include penalties amounting to P=5.0 million and various fees for treasury transactions amounting to P=2.1 million.

Miscellaneous expense consists of:

	2012 (One Year)	2011 (Six Months)
Commissions and service charges	**₱46,973,356**	₱17,596,289
Advertising and publications	**24,503,123**	6,795,350
Information and technology	**21,452,830**	14,341,221
Banking fees	**12,994,861**	3,939,523
Membership fees and dues	**7,693,574**	3,288,938
Freight	**5,646,712**	1,876,159
Minor tools and equipment	**5,466,252**	3,964,403
Cards-related expenses	**4,904,362**	-
Fuel and lubricants	**3,827,554**	2,513,802
Philippine Clearing House Corporation fees	**2,783,586**	1,387,729
Others	**57,922,704**	22,835,000
	₱194,168,914	₱78,538,414

Others include periodicals, donations and charitable contribution and others.

25. Long-term Leases

The Bank leases the premises occupied by its head office and branches for periods ranging from 4 to 5 years and are renewable upon mutual agreement of both parties under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%. Rent expense charged against current operations (included under 'Occupancy' in the statement of income) amounted to ₱92.44 million and ₱35.5 million for the year ended December 31, 2012 and for the six month period ended December 31, 2011, respectively.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2012	2011
Within one year	**₱116,147,548**	₱61,737,167
After one year but not more than five years	**421,459,163**	125,556,379
More than five years	**434,565,445**	6,063,617
	₱972,172,156	₱193,357,163

26. Income and Other Taxes

Under Philippine tax laws, 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 documentary stamp tax and gross receipts tax (GRT).

Income taxes include corporate income taxes and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00%, which represents final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits, are presented as 'Provision for income tax' in the statement of income.

Republic Act (RA) No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 30.00%. Interest expense allowed as a deductible expense shall be reduced by 33.00% of interest income subject to final tax.

The MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as a deduction from taxable income in the next three years from the year of inception. Current tax regulations also set a limit on the amount of entertainment, amusement and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services. EAR charged against current operations amounted to ₱46.7 million and ₱18.5 million for the periods ended December 31, 2012 and 2011, respectively. These expenses are presented as 'Entertainment, amusement and recreation' in the statement of income.

RA No. 9294, An Act Restoring the Tax Exemption of Offshore Banking Units and Foreign Currency Deposit Units, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, offshore banking units (OBUs), local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% income tax.

Effective immediately, the Bureau of Internal Revenue issued RR No. 4-2011 on March 15, 2011 which sets out the rules on the allocation of costs and expenses between the RBU or FCDU. The rules mainly provide that the costs and expenses should be allocated using specific identification of expenses to a particular unit and by allocation of common expenses based on percentage share of gross income earnings of a unit to the total gross income earnings subject to RCIT and final tax including those exempt from income tax

Provision for (benefit from) income tax consists of:

	2012 (One Year)	2011 (Six Months)
Current:		
RCIT	**₱170,393,381**	₱65,307,608
Final	**95,812,820**	30,830,485
	266,206,201	96,138,093
Deferred	**(9,145,227)**	(46,901,338)
	₱257,060,974	₱49,236,755

Components of net deferred tax assets (included under 'Other assets' in the statements of financial position) follow:

	2012	2011
Deferred tax liability on unrealized profit on assets sold	**(₱36,954,289)**	(₱38,244,404)
Deferred tax asset on fair value loss on financial assets	**36,954,289**	38,244,404
	₱-	₱-

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

	2012	2011
Allowance for impairment and credit losses	**₱1,211,104,892**	₱1,238,090,960
Mark-to-market of derivatives	**391,968,697**	460,310,200
Provisions and accruals	**152,071,534**	185,430,327
Fair value loss on financial assets	**124,299,255**	138,600,321
Retirement liability and unamortized pension trust contribution	**68,427,649**	51,206,793
Accumulated depreciation on investment and chattel properties	**20,066,827**	-
Unrealized foreign exchange loss	**17,666,262**	5,759,897
Fair value on investment and chattel properties	**16,105,617**	-
MCIT	**-**	9,145,227
	₱2,001,710,733	₱2,088,543,725

Details of the Bank's MCIT follow:

Inception Year	Amount	Used	Balance	Expiry Year
2010	₱16,733,452	₱16,733,452	₱-	2013
2011	23,312,214	23,312,214	-	2014
	₱40,045,666	₱40,045,666	₱-	

A reconciliation between the statutory income tax rate and the effective income tax rate follows:

	2012 (One Year)	2011 (Six Months)
Statutory income tax rate	**30.00%**	30.00%
Tax effects of:		
Nondeductible expenses	**5.10**	10.70
Tax-exempt income and income subjected to final tax	**(4.69)**	(10.39)
FCDU income before income tax	**(4.31)**	(1.25)
Movements in unrecognized deferred tax assets	**3.21**	(10.28)
Effective income tax rate	**29.31%**	18.78%

27. Trust Operations

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying statement of financial position since these are not assets of the Bank (Note 28).

In connection with the trust business of the Bank, government securities (under 'HTM investments') with total face value of ₱81.0 million as of December 31, 2012 and 2011, respectively, are deposited with the BSP in compliance with the requirements of the General Banking Law.

28. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are outstanding commitments and other contingent liabilities and tax assessments which are not reflected in the accompanying financial statements. The Bank does not anticipate material losses from these commitments and contingent liabilities.

Regulatory Reporting
The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2012	2011
Trust department accounts (Note 27)	**₱4,844,318,651**	₱6,827,764,720
Unused commercial letters of credit	**1,616,139,449**	456,597,355
Outstanding guarantees	**436,578,575**	205,669,644
Inward bills for collection	**126,353,653**	32,536,910
Late deposits and payments received	**7,468,740**	12,531,837
Outward bills for collection	**117,074**	226,427
Others	**116**	116

29. 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 or if they are subjected to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities.

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Transactions with retirement plans
The retirement fund of the Bank's employees with a fair value amounting to ₱115.1 million and ₱119.8 million and carrying value amounting to ₱113.7 million and ₱118.9 million, as of December 31, 2012 and 2011, respectively, is being managed by the Bank's Trust Department. The transaction was made substantially on the same terms as with other individuals and businesses of comparable risks. Other than deposits with the Bank and trust fees, there were no other material transactions between the retirement fund and the Bank in 2012 and 2011. The Bank earned ₱1.1 million and ₱0.3 million as trust fees for the periods ended December 31, 2012 and 2011 respectively.

Refer to Note 23 for the details of the assets and investments of the retirement fund. The retirement fund of the Bank does not have investments in the shares of stock of the Bank.

Remunerations of Directors and other Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Executive Committee to constitute key management personnel for purposes of PAS 24.

Compensation of key management personnel representing seconded officers from the Parent Company (covering officer positions starting from Operations Officer and up) included under 'Compensation and fringe benefits' in the statements of income follows:

	2012 (One Year)	2011 (Six Months)
Salaries and other short-term benefits	**₱73,024,591**	₱61,130,275
Post-employment benefits	**10,769,267**	3,088,391
	₱83,793,858	₱64,218,666

Regulatory Reporting

In the ordinary course of business, the Bank enters into loans and other transactions with its affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks and are settled in cash.

The amount of individual loans to DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and their respective investments in the Bank. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total regulatory capital or 15.00% of the total loan portfolio. As of December 31, 2012 and 2011, the Bank is in compliance with these regulatory requirements.

BSP Circular No. 423, dated March 15, 2004, amended the definition of DOSRI accounts. Further, the BSP issued BSP Circular No. 464, dated January 4, 2005, clarifying the definition of stockholders.

The following table shows information relating to DOSRI loans of the Bank:

	2012	2011
Total outstanding DOSRI loans (in thousands)	**₱586,309**	₱565,637
Percent of DOSRI loans granted prior to effectivity of BSP Circular No. 423 to total loans	**1.71%**	1.34%
Percent of DOSRI loans granted after effectivity of BSP Circular No. 423 to total loans	**1.88%**	2.25%
Percent of DOSRI loans to total loans	**0.10%**	0.04%
Percent of unsecured DOSRI loans to total DOSRI loans	**Nil**	Nil
Percent of past due DOSRI loans to total DOSRI loans	**Nil**	Nil
Percent of nonperforming DOSRI loans to total DOSRI loans	**Nil**	Nil

Total outstanding DOSRI loans include portion of loans covered by hold-outs on deposit and which are excluded in determining compliance with the aggregate ceiling.

Section X327 of the MORB states that transactions covered for loans to be classified as loans to DOSRI, shall refer to transactions of the bank which involve the grant of any loan, advance or other credit accommodation in any form whatsoever, whether renewal, extension or increase. Thus, a non-DOSRI loan which, during its term, becomes subject to an event that results to any of the positions/relationships enumerated under Section X326.1 of the MORB shall remain a non-DOSRI loan unless the same is renewed, extended or increased at any time.

Total interest income on the DOSRI loans and receivable amounted to ₱32.3 million and ₱32.2 million for the periods ended December 31, 2012 and 2011, respectively.

For the periods ended December 31, 2012 and 2011, interest rates on DOSRI loans ranged from 5.65% to 6.19% with an average term of 2 years.

On December 15, 2010, the Bank entered into an agreement with Maybank International Labuan Limited (MILL) whereby the Bank shall perform account management in its favor. This will involve the preparation of a credit memorandum for the facility being requested by the client and the conduct of annual review on the account. The Bank shall charge MILL a service fee of 0.3% of the average US$ value of loans and investments booked by MILL per annum beginning July 1, 2010 until such time that the agreement shall be terminated. Service fees earned from MILL amounted to ₱16.9 million and ₱23.6 million for the periods ended December 31, 2012 and 2011, respectively.

Other Related Party Transactions

Other related party transactions entered in the normal course of business include sale of property and equipment, leases and regular banking transactions. The significant year-end account balances with respect to related parties included in the financial statements (excluding deposit liabilities) follow:

	Outstanding Balance /Volume		
	2012 (One Year)	2011 (Six Months)	Nature, Terms and Conditions
Parent Company			
Due from other banks	**₱5,485,951**	₱2,270,340	Foreign currency demand deposit accounts, non-interest bearing
Deposits	**1,927,145,076**	216,048,125	
Withdrawals	**1,923,929,465**	215,486,357	
Interbank loans receivables	**-**	-	Foreign currency lending which earn annual fixed interest rate of 0.02% with maturity terms ranging from 1 day to 182 days, unsecured
Availments	**845,215,000**	-	
Settlements	**845,215,000**	-	
Accounts receivable	**6,770,221**	7,709,821	Various administrative expenses, due on demand, non-interest bearing and unsecured
Advances	**23,816,100**	11,400,333	
Repayments	**24,755,700**	8,109,813	
Interest income	**38,697,553**	49,801,628	Interest Income from Interbank Loans Receivable and Due from Other Banks
Bills payable	**3,226,119,500**	4,677,728,000	Short-term foreign currency borrowings subject to annual fixed interest rate ranging from 0.22% to 1.53% with maturity terms from 5 to 186 days, unsecured
Availments	**89,196,319,055**	44,430,194,441	
Settlements	**90,647,927,555**	41,264,946,441	
Deposit liabilities	**1,547,685,798**	2,321,467,200	With various terms and annual interest rates ranging from 0.25% to 3.50%
Deposits	**1,103,249,353**	1,196,266,044	
Withdrawals	**1,877,030,755**	1,192,234,242	
Financial liabilities at FVPL	**82,566,328**	85,782,098	Interest rate swaps where the Bank pays fixed semi-annual interest ranging from 6.000% to 8.375% and receives semi-annual interests based on 6-month LIBOR, unsecured with a maturity of 60 to 110 months,unsecured
Accrued interest payable	**997,843**	16,261,953	Accrued interest expense on bills payable and interest rate swaps
Interest expense	**126,522,056**	69,329,506	Interest expense on interest rate swaps, bills payable and deposit liabilities
Other related parties			
Due from other banks	**14,947,003**	8,896,993	Various foreign currency demand deposit accounts , non-interest bearing
Deposits	**32,616,027,990**	15,021,459,921	
Withdrawals	**32,609,977,980**	15,021,126,991	
Loans and receivables	**39,892,006**	9,000,000	Revolving credit line with maturity of two-years bearing 4.5% interest rate, fully secured by hold-out amounting to US$20 million, and bills purchased fully secured by hold-out

(Forward)

	2012 (One Year)	2011 (Six Months)	Nature, Terms and Conditions
Availments	**768,449,745**	11,000,000	
Settlements	**737,557,740**	17,000,000	
Interbank loans receivable	**10,906,000**	11,348,420	Foreign currency lending which earn annual fixed interest rate of 0.02% with maturity terms ranging from 1 to 182 days, unsecured
Availments	**1,166,499,580**	440,510,000	
Settlements	**1,166,942,000**	440,510,000	
Accounts receivable	**539,396,556**	526,402,598	Receivable subject to interest rate based on one-month PDST-F plus 1%, with a maturity of 10 years secured by deposit hold-out. Also includes various administrative expenses
Advances	**79,283,617**	17,195,209	
Repayments	**66,289,659**	23,713,003	
Accrued interest receivable	**1,318,153**	40,787,013	Accrued interest income on accounts receivables
Interest income	**230,278,654**	86,891,521	Interest income from interbank loans receivable, loans and receivables and due from other banks
Bills payable	**2,257,750,000**	4,739,104,000	Short-term foreign currency borrowings subject to annual fixed interest rates ranging from 0.20% to 1.50% with maturity terms from 4 to 186 days
Availments	**261,896,749,081**	118,552,184,210	
Settlements	**264,378,103,081**	120,615,869,210	
Deposit liabilities	**1,115,458,733**	608,008,069	Various terms and minimum annual interest rates ranging from 0.25% to 3.50%. with maturities of 1 to 63 days
Deposits	**5,040,949,430**	1,043,324,965	
Withdrawals	**4,533,498,766**	928,594,919	
Financial liabilities at FVPL	**298,419,770**	377,418,304	Interest rate swaps where the Bank pays fixed semi-annual interest ranging from 2.25% to 9.88% and receives semi-annual interests based on 6-month LIBOR , unsecured with a maturity of 74 to 105 months.
Accrued interest payable	**41,164,062**	83,469,486	Accrued interest expense on bills payable and interest rate swaps
Interest expense	**121,627,564**	131,961,299	Interest expense on interest rate swaps, bills payable and deposit liabilities
Service charges, fees and commissions	**170,037,444**	107,126,948	Transactional fees for various services rendered
<u>Retirement fund of the Bank</u>			
Deposit with the Bank	**4,354,593**	13,228,589	Non-interest bearing
Interest income	**-**	-	

As of December 31, 2012 and 2011, the Banks outstanding loans to related parties are not impaired.

Other related parties are other companies owned and controlled by the Bank's parent company.

For the periods ended December 31, 2012 and 2011, the Bank entered into foreign currency denominated interest rate swaps with MBB and Maybank Singapore where the Bank pays fixed semi-annual interest ranging from 2.25% to 11.38% and receives semi-annual interests based on 6-month LIBOR.

30. Notes to Statements of Cash Flows

As of December 31, 2012 and 2011, interbank loans receivable which has original maturity of more than three months amounted to ₱128.1 million and ₱11.3 million, respectively.

Non-cash additions to investment properties and other properties acquired in settlement of loans amounted to ₱20.2 million and ₱111.1 million, and ₱5.1 million and ₱37.2 million, respectively, for the periods ended December 31, 2012 and 2011, respectively.

31. Subsequent Events

The Maybank Group Board approved the Bank's request for additional capital amounting to US$100 million at its meeting on October 25, 2012. The additional capital will support the Bank's new medium-term business plan, which includes upgrading its distribution and IT infrastructure as well as building up its consumer assets. The new capital will also help the Bank comply with regulatory requirements, especially with the implementation of Basel 3 in 2014. The new capital was remitted to MPI in January 2013 and eventually converted into peso as equity capital.

32. Approval for the Release of Financial Statements

The Board of Directors approved the release of the accompanying comparative financial statements of the Bank on March 15, 2013.

33. Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

<u>Supplementary Information Under RR No. 19-2011</u>
In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the BIR issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2012, the Bank reported the following revenues and expenses for income tax purposes (in absolute amounts):

<u>Revenues</u>	
Services/operations	₱2,172,161,226
Non-operating and taxable other income:	
Service charges, fees and commissions	211,023,407
Trading and securities gain	82,170
Others	190,282,100
	401,387,677
	₱2,573,548,903
<u>Expenses</u>	
Cost of services:	
Interest expense	₱580,948,805
Compensation and fringe benefits	340,720,580
Insurance-PDIC	43,415,232
Banking fee	8,317,508
	₱973,402,125
Itemized deductions:	
Taxes and licenses	₱235,299,149
Salaries and allowances	93,674,978
Rent	72,905,769
Communication, light and water	58,830,616
Fringe benefits	56,714,782
Bad debts	56,505,345
Security services	51,268,031
SSS, GSIS, Philhealth, HDMF and other contributions	47,199,515
Transportation and travel	46,944,796
Depreciation	42,404,517
Commission	29,903,295
Repairs and maintenance	24,371,237
Janitorial and messengerial services	20,827,471
Amortization - leasehold, rights and improvements	19,443,085
Representation and entertainment	18,863,881
Office supplies	17,069,057
Advertising and promotions	16,543,631
Professional fees	15,599,701
Management and consultancy fees	15,189,234
Insurance	8,472,218
Director's fee	6,960,340
Amortization - other intangible assets	3,107,196
Fuel and oil	3,045,887
Charitable contributions	611,889
Miscellaneous	70,413,223
	₱1,032,168,843

Supplementary Information Under RR No. 15-2010
The Bank reported and/or paid the following types of taxes for the year:

Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Taxes and Licenses' account in the Bank's statement of income.

Details consist of the following:

	December 31, 2012
Gross receipts tax	₱178,093,872
Documentary stamp tax	76,492,056
License and permit fees	11,618,366
Real estate taxes	331,607
Registration fees	97,303
	₱266,633,204

Withholding Taxes
Details of withholding taxes for the year are as follows:

	2012	
	Total Amount Remitted	Balance as at December 31
Withholding taxes on compensation and benefits	₱113,622,891	₱5,278,560
Final withholding taxes	109,737,231	12,980,719
Expanded withholding taxes	21,396,431	1,996,314
	₱244,756,553	₱20,255,593

As of December 31, 2012, the Bank had not received any final tax assessment from the Bureau of Internal Revenue.

Products and Services

DEPOSIT PRODUCTS

VALUE
Simple & easy banking solutions
- Savings and Checking Accounts with low maintaining balance

CLASSIC
Uncomplicated effortless banking
- Traditional Savings, Checking and Time Deposit Accounts

Save n' Protect Savings Account
Peace of mind to a higher level
- Comes with a passbook and inter-country ATM card
- Free Life Insurance Coverage equal to 2x the average daily balance up to a maximum of P1 million per account or P3 million for depositor with multiple accounts

Premier 1 Checking Account
All you need in a Checking Account
- A specialized checking account with tiered-based interest provision depending on the number of withdrawals
- Comes with a Record book for itemized posting of inward checks
- Free initial inter-country ATM card
- Free Personal Accident Insurance for individual accounts

YIPPIE and ImTEEN Savings Account
Teach children the value of saving
- A savings account for ages 17 below
- Comes with a passbook
- Free initial inter-country ATM card
- Free personal accident Insurance with medical reimbursement benefit

US Dollar Savings Account
Save in US, Earn interest in US
- A regular interest-earning dollar passbook account

ADDvantage Flex Time Deposit
Time well spent
- Guaranteed base rate for 1 or 2-year term
- Waived documentary stamp tax

ADDvantage 5-year Time Deposit
Time well spent
- A fixed-interest and tax free time deposit account for 5 years
- Waived documentary stamp tax

ADDvantage Advance Time Deposit
Get interest instantly upon deposit
- Credit your interest earnings to a savings or checking account instantly
- Waived documentary stamp tax

Special Savings Account
Enjoy higher interest rates for your savings account
- Comes with a passbook
- Waived documentary stamp tax

FlexiRate Deposit
More flexibility for your money
- Earns additional interest rate depending on the linked savings or checking account
- Waived documentary stamp tax

ADD LINK
- Transfer funds regularly from one account to another or transfer according to minimum daily ending balance
- Easy and one time enrollment process
- No need to go to the bank every time to make fund transfers

ELECTRONIC BANKING

M2U
The convenience of Unli - banking
Feel secured with your M2U unli-banking transactions with the bank's double-layered security or Transaction Authorization Code (TAC)

- View your deposit, loan, and credit card accounts
- Transfer funds from your Maybank accounts, third party and Interbank fund transfer among BancNet member banks
- Pay your bills
- Reload your prepaid mobile phone
- Exchange your dollar to peso
- Place your money to time deposit
- Request for checkbook
- Perform stop payment order

Money2u Remittance
Before you take over the world, let us first take care of you

- Same day crediting to your Maybank account and within 24 hours to other bank
- Receive remittances worldwide
- First 2 monthly withdrawal charges are waived

Maybank Money Express
Send your remittances from Malaysia via MME

- One of the fastest ways of sending money
- No bank account required
- Real-time transaction
- No back-end charge
- Funds can be claimed at 912 outlets

Maybank ATM
Your other passport

- Access your account at any Maybank ATMs in Malaysia, Singapore, Brunei, Vietnam, Papua New Guinea, and Cambodia
- Use your card in Bancnet, Megalink or Expressnet ATMs in the Philippines
- Pay your bills anytime via ATM or M2U Internet Banking
- Shop at any POS-enabled merchant establishments nationwide
- Transfer funds real time from your Maybank account to accounts in other BancNet banks
- Get access to your account anytime, anywhere via M2U Internet

My Cash Card
It's Cash in a Card

- No maintaining balance
- No expiration
- No dormancy charges
- Easy application process

CONSUMER LOANS

MaxiHome Loans
Enjoy big advantage in building your dream home
Available for purchase of residential house and lots, vacant lots, townhouses or condominium units, for building your dream home, or for refinancing an existing housing loan. Borrow as much as 80% of the property's appraised value at flexible terms and longer repayment period of up to 20 years.

Auto Loans
Owning made easy
Designed for the acquisition of brand new and pre-owned vehicles with a swift 1-day approval and repayment of terms up to 60 months.

Truck Loans
Purchase brand-new, used or reconditioned trucks and borrow up to 70%, of the vehicles cash price or appraised value. Repayment terms are up to 48 months.

Auto Refinancing
Quick loans using owned motor vehicles. Repayment of loan can extend up to 24 months.

Floor Stock Financing
A revolving facility providing finance for auto dealer's working capital requirements to support purchase of inventory of new vehicles for a short term period.

enAble Personal Loan
Now you can!
A no - collateral loan which can be used to pay-off credit card bills, medical expenses, tuition fees, travel/ vacation, home furnishings or purchase of high-end appliances and electronic products. Enjoy competitive rates and terms up to 36 months, at attractive and affordable rates.

Salary Loan
A salary-deductible consumer loan available to qualified employees of companies accredited by Maybank. A partnership between Maybank and a company wherein they provide the loan benefit to their employees and we provide the financing.

Maybank Credit Card
Make someone happy today. Just like that.

- Available in MasterCard or Visa (Standard/Classic, Gold and Platinum)
- Financial flexibility through Maybank EzyPlans (EzyPay, EzyTransfer, EzyConvert and EzyCash)
- EMV-complaint chip card to help prevent fraudulent transactions
- Evergreen TreatsPoints
- Cross-border treats in Malaysia, Singapore and Indonesia
- Worldwide acceptance

CASH MANAGEMENT SERVICES

COLLECTION SOLUTIONS

Express Collect
Unique deposit taking service which provides a flexible and safe solution for transporting check collections from the client's office for deposit into their Maybank account via the bank's accredited motorized collector.

Cash Collect
Nationwide cash pick-up service which ensures a secure, efficient and convenient solution for transferring cash and check collections from the customer's office into their Maybank account.

Bills Payment
Automated receivables solution that allows corporate customers to collect from their clients via Maybank's branches

Check Warehousing
Outsource the management and handling of Post Dated Checks (PDC) and generating reports for easy reconciliation.

Night Depository Box
Secure and safe deposit solution for businesses operating beyond banking hours, weekends and holidays. Deposits are kept safe until they can be counted and verified the next banking day.

PAYMENT SOLUTIONS

Check Cutting
Allows corporate customers to outsource the check making and releasing activities to the bank and gives an option to use either Corporate Checks or Maybank Manager's Checks

Check Master
Stand alone check writing solution for the automated preparation of checks, vouchers and reports.

PAYROLL SOLUTIONS

Payroll Manager
Hassle free payroll solution that provides convenience of paying the periodic salaries of employees into their Maybank ATM accounts.

Payroll Manager Plus
Leading edge payroll solution that combines functionalities of a traditional payroll service coupled with up-to-date software to ensure security, efficiency & cost-saving during payroll activities.

Payroll Master
Stand alone payroll system that automates the computation the distribution of salaries and other benefits directly into the employees' ATM accounts.

REMITTANCE

Local and International Fund Remittance
Send to and receive remittances from your relatives. Maybank has various EFTS (Electronic Fund Transfer System) to facilitate fund transfer anywhere in the Philippines and abroad.

SSS Local pensioner's Remittance
Direct credit of SSS local pension to your Maybank Account.

International Veterans Affairs & Social Security Direct Remittance

TRUST & FIDUCIARY ACCOUNTS

Investment Management Account (IMA)
Maximize returns on your investment and make Maybank your Investment Manager for a minimum placement of Php 1, 000,000. IMA allows you flexibility and involvement in deciding where to invest your funds.

Personal Living Trust
Create a trust portfolio out of your cash and other properties that Maybank will manage for you or your loved ones and also for the future benefit of your intended beneficiaries.

Escrow Account
Meet your future obligations as well as protect the interests of the contracting parties by letting Maybank facilitate the delivery or exchange of money, securities or property between buyers and sellers upon fulfillment of your stipulated conditions.

Pension/Provident Fund Account
Maybank acts as a keeper and investment manager of entrusted accumulated funds for companies, their employees, or both, for use as payments for retirement or separation benefits to employees. This arrangement provides for a systematic retirement plan scheme while enjoying certain tax benefits both for the company and its employees.

Life Insurance Trust
Make your life Insurance policies payable to Maybank, and we will handle and distribute the proceeds thereof in accordance with your intended dispositions.

Loan Agency
Let Maybank act as an intermediate between your corporation and creditors to ensure the payment of your loan obligations in a timely and organized manner. We can monitor the interest rates, handle the administrative duties, and coordinate remittance of funds as required.

Mortgage Trust Indenture
Maybank will act as intermediary between your company and its creditors in the administration of properties securing the company's loans, specifically to manage the collateral under a Mortgage Trust Indenture and issue Mortgage Participation Certificates.

Receiving, Transfer and Paying Agency
Maybank can act as the receiving, transfer and paying agent which can assist your company in issuing and keeping track of bonds or notes issued to various holders. As an agent, Maybank will take care of collecting subscription proceeds, recording changes in ownership and submitting required reports.

Custodian
As your custodian, let Maybank safekeep and preserve important documents and valuables. Maybank can also do certain administrative duties in accordance with your orders or instructions.

PRE-NEED PLANS

Institutional
Let Maybank manage your funds for the protection of the plan holders.

Individual
Put up your own fund for the future needs of your loved ones such as for education, hospitalization, funeral and other expenses.

BUSINESS LOANS

Revolving Credit Line (RCL)
Short - term loans granted for working capital purposes, where the amount paid is made continuously available provided it does not exceed the approved credit line.

Term Loan
Term loans are granted for the purpose of project financing, capital assets acquisition/expenditures, or business expansion.

Domestic Bills Purchase Line
Granted to augment the working capital of the borrower through advances made by the bank against current-dated checks.

Discounting Line
Credit facility granted to augment working capital of the borrower through the discounting of its trade-related, third-party post-dated checks (PDC's).

Letter of Credit/Trust Receipt
The Letter of Credit is issued by the bank on behalf of the importer-customer for the benefit of the supplier (exporter). It is issued to cover the purchase of goods for the final use of the buyer or for resale.

Trust receipt financing allows the applicant (importer) to take possession of the goods and to convert the same

into cash within a maximum allowable period. Trade transaction that requires TR financing may or may not be covered by LC.

Standby Letters of Credit

A letter of credit used to guarantee payment in case of non performance of the applicant and the beneficiary. It is used as a form of protection to cover performance under contract. It assures the beneficiary that the applicant will fulfill the contractual obligation or if not, the beneficiary may draw funds that are available as set forth in the LC.

Export Advances Line/Packing credit
Loans granted to exporters to purchase or preparation or preparation of goods for shipment against the assignment to MPI of export proceeds covered by Letter of Credit, Purchase Order or supplier's Credit.

Agricultural Sugar Crop Loan (ASCL)
A non-revolving loan facility intended to finance the sugar production requirements of sugar planters.

Ready and On-Time Accounts Receivable (ROAR) Financing
Purchase of supplier's receivables from an accredited corporate buyer at a discount.

TREASURY PRODUCTS AND SERVICES

Government Securities
Also known as sovereign notes or bonds, these are certificates of indebtedness that are unconditionally guaranteed and backed by the fully taxing power of the sovereignty. They and issued through the Bureau of Treasury.

Treasury Bills
Available in 91-, 182- and 364-day tenors

Retail Treasury Bonds
Available in 3-, 5-, 7-, 10-, 15-, 20-, 25-year tenors

Fixed Rate Treasury Notes
Available in 3-, 5-, 7-, 10-, 15-, 20-, 25-year tenors

RoP's
Foreign currency denominated bonds issued by the Philippine government.

Other types of Bonds
Local & Foreign currency denominated:
a.) Other sovereign government such as Malaysia or Indonesia
b.) Philippine Government-Owned & controlled companies (GOCC's) such as PSALM Bonds; or
c.) Private companies that is based in the Philippines or offshore.

Derivatives
A financial instrument whose value is derived from the value of underlying assets such as commodities, equities and currencies. We offer selected derivative instruments to assist our clients in hedging both their Peso or US dollar foreign exchange risk.
Available hedging tools:
a.) Foreign Exchange Forwards
b.) Foreign Exchange Swaps

METRO MANILA

MAIN OFFICE BRANCH
G/F Maybank Corporate Centre,
7th Ave. cor. 28th St.,
Bonifacio High Street Central, Bonifacio Global City, Taguig City
Tel. No.: 478-1155
Fax No.: 519-6325

A MABINI
G/F Metropolitan Towers Condominium,
1746 A. Mabini St., Malate,
Manila 1004
Tel. No.: 526-0666
Fax No.: 526-0667

AYALA ALABANG
G/F Mapfre Insular Corporate Center
Acacia Ave., Madrigal Business Park
Ayala Alabang, Muntinlupa City 1770
Tel No.: 842-9473
842-9423
Fax No.: 842-9422

BEL-AIR
G/F 357 New Solid Building,
Sen. Gil Puyat Ave.,
Makati City 1200
Tel No.: 890-4679
890-4839
890-4680
Fax No.: 890-4824

BINONDO
G/F Co Chin Leng Building,
567 - 569 Quintin Paredes St.,
Binondo, Manila 1006
Tel No.: 247-4576
Fax No.: 243-9735

CALOOCAN
Rizal Ave. cor. 10th Ave.,
Caloocan City 1400
Tel No.: 364-5545
Fax No.: 364-5526

CUBAO
178 P. Tuazon Blvd. cor. 8th Ave.,
Cubao, Quezon City 1109
Tel No.: 911-7366
Fax No.: 911-6770

DEL MONTE
No. 483 Del Monte Ave.,
Quezon City
Tel No.: 365-0855
Fax No.: 365-0955

EDSA TAFT
G/F 2008 Manester Building,
EDSA Extension
cor. Taft Ave. Extension
Pasay City 1300
Tel No.: 519-7760
Fax No.: 851-4719

GLOBAL CITY-BURGOS CIRCLE
G/F ACCRALAW Tower
2nd Ave. cor. 30th St.,
Bonifacio Global City
Taguig City 1634
Tel No.: 403-5485
556-9831
Fax No.: 501-8691

GLOBAL CITY - SOUTH OF MARKET
Commercial 10 North Tower,
South of Market
26th St. cor. 11th Ave.,
Bonifacio Global City
Taguig City 1634
Tel No.: 403-8765
Fax No.: 403-8763

GLOBAL CITY - 32ND ST.
G/F Unit 6, Trade and Finance Tower
7th Ave. cor. 32nd St.,
Bonifacio Global City
Taguig City
Tel No.: 478-7961
Fax No.: 478-9499

GREENHILLS
G/F Unit 2 Greenhills Mansions
37 Annapolis St.,
Greenhills, San Juan 1500
Tel No.: 721-6163
721-1895
Fax No.: 721-3194

KATIPUNAN
G/F Golan Plaza
333 Katipunan Ave.,
Loyola Heights, Quezon City
Tel No.: 426-0199
Fax No.: 738-6031

LAS PIÑAS
Alabang-Zapote Road,
Pamplona Tres, Las Piñas
Tel No.: 872-6649
Fax No.: 808-8384

LEGASPI TOWERS
G/F Legaspi Towers
300 Roxas Blvd. cor. Pablo Ocampo St.,
Malate, Manila
Tel No.: 521-6616
523-7777 loc. 170, 249, 241

MAKATI AVENUE
St. Giles Hotel, Makati Ave.
cor. Kalayaan Ave., Poblacion
Makati City
Tel No.: 553-8115 to 16
Fax No.: 553-8117

MALABON
155-C Gov. Pascual Ave.,
Acacia, Malabon City 1470
Tel No.: 990-4057 to 59
Fax No.: 990-4059

MARIKINA
54 Bayan-bayanan Ave.
Concepcion Uno, Marikina City
Tel No.: 571-7104 to 05

MCKINLEY HILL
G/F Commerce & Industry Plaza
1030 Campus Ave. cor. Park Ave.,
McKinley Hill Town Center,
Fort Bonifacio, Taguig City
Tel No.: 822-3708
846-2452
Fax No.: 822-0063

NEWPORT CITY
Unit R4 G/F, Star Cruises Building,
110 Andrews Ave., Newport City,
Cyber-tourism Zone
Pasay City 1309
Tel No.: 556-8583
556-8582
Fax No.: 804-0691

ORTIGAS
G/F Unit 101
Pacific Center Building,
San Miguel Ave., Ortigas Center
Pasig City 1605
Tel No.: 706-5270
584-9207
Fax No.: 638-7646

RUFINO
G/F Plaza 100 Building
V.A. Rufino St. cor. Dela Rosa St.,
Legaspi Village, Makati City 1229
Tel No.: 856-5972
856-5974
Fax No.: 856-5973

SAN JUAN
G/F LM Building,
157 F. Blumentritt St.,
San Juan City 1500
Tel No.: 724-3247
Fax No.: 725-9005

SUCAT-PARAÑAQUE
8212 Dr. A. Santos Ave.,
Brgy. San Isidro, Parañaque City
Tel No.: 822-1781
825-2840
Fax No.: 826-7633

TOMAS MORATO
G/F MJB Building
220 Tomas Morato Ave.
cor. Scout Lascano St.,
Brgy. Sacred Heart, Quezon City
Tel No.: 929-8816
Fax No.: 920-9262

VALENZUELA
209 - 211 McArthurHighway
Karuhatan,Valenzuela City
Tel No.: 443-2014
Fax No.: 293-6483

VILLAMOR
New Concessionaires Area
Villamor Air Base
Pasay City 1309
Tel No.: 852-1450
Fax No.: 852-1449

PROVINCIAL BRANCHES

LUZON

ALAMINOS
G/F Apostol Building,
Quezon Ave., Alaminos City,
Pangasinan 2404
Tel No.: (075) 551-3368
Fax No.: (075) 552-7049

BAGUIO
143 EDY Building, Kisad Road
Baguio City
Tel No.: (074) 423-3571
Fax No.: (074) 446-7244

BIÑAN
Km 35 National Highway
Brgy. San Antonio,
Biñan City, Laguna
Tel No.: (049) 511-3032
Fax No.: (049) 511-3032
(049) 511-3005

CLARK
Pavilion 8, Berthaphil III Clark Center
Jose Abad Santos Ave.,
Clark Freeport Zone, Pampanga
Tel No.: (045) 499-2125
(045) 893-4386
Fax No.: (02) 246-8411

DAGUPAN
290 A.B. Fernandez Ave.,
Dagupan City, Pangasinan
Tel No.: (075) 523-1194
Fax No.: (075) 523-1194

GUAGUA
Gil J. Puyat St., Sto. Niño,
Guagua, Pampanga 2001
Tel No.: (045) 900-4107
Fax No.: (045) 900-0265

HAGONOY
G/F Puso Niño Mall Building,
Poblacion, Sto. Niño,
Hagonoy, Bulacan 3002
Tel No.: (044) 793-0007
Fax No.: (044) 793-3044

LAOAG
Brgy. 16, Villanueva St.,
Laoag City 2900
Tel No.: (077) 772-0050
Fax No.: (077) 770-3642

LIPA
C.M. Recto Avenue cor. Rizal St.,
Lipa City
Tel No.: (043) 702-1599
Fax No.: (043) 702-1600

LUCENA
Quezon Ave. cor. Lakandula St.,
Lucena City 4301
Tel No.: (042) 660-2188
Fax No.: (02) 250-8252

MEYCAUAYAN
McArthur Highway
cor. Malhacan Road,
Meycauayan, Bulacan 3020
Tel No.: (044) 840-8710
Fax No.: (044) 228-5736

OLONGAPO
1255 Rizal Ave., West Tapinac
Olongapo City 2200
Tel No.: (047) 222-2110
Fax No.: (047) 223-6756

SAN FERNANDO
G/F Dan's Marketing, CCD Bldg. 5
MacArthur Highway, Dolores
San Fernando, Pampanga 2000
Tel No.: (045) 961-2274
(045) 961-2352
Fax No.: (045) 961-5479

STA. ROSA
JP Rizal Boulevard cor.
Gov. F. Gomez St.,
Sta. Rosa City, Laguna 4026
Tel No.: (049) 534-1019
Fax No.: (02) 520-8686

TARLAC
Unit 105 & 106 A Benry Square,
No. 1 F. Tanedo St., Tarlac City
Tel No.: (045) 309-0392

URDANETA
MacArthur Highway
Urdaneta City, Pangasinan 2428
Tel No.: (075) 568-6811
Fax No.: (075) 656-2401

VIGAN
G/F GSP Building,
Leona Florentino cor. Plaridel St.,
Vigan City, Ilocos Sur 2700
Tel No.: (077) 722-2836
(077) 722-1903
Fax No.: (077) 632-0747

VISAYAS

BACOLOD
G/F R&B Bldg., Hilado St. cor.
Narra St., Capitol Shopping Center,
Bacolod City
Tel No.: (034) 435-0050
(034) 434-5541
Fax No.: (034) 435-1443

BAGO
Gonzaga St., Brgy. Poblacion,
Bago City, Negros Occidental 6101
Tel No.: (034) 461-0358
Fax No.: (034) 461-1158

CEBU BUSINESS CENTER
Zenith Central, Lot 2 Blk. 19 Luzon Ave.
Cebu Business Park, Cebu City
Tel No.: (032) 253-4527
Fax No.: (032) 253-4525

CEBU - MANDAUE
Lopez Jaena St., National Highway
Subangdaku, Mandaue City
Tel No.: (032) 520-5043,
(032) 520-5425
Fax No.: (032) 520-5031

ILOILO
G/F J&B Bldg. II,
Ledesma St. cor. Mabini St.,
Iloilo City 5000
Tel No.: (033) 337-9067
(033) 337-0107
Fax No.: (033) 337-1707

ROXAS
1068 Roxas Ave.,
Roxas City
Tel No.: (036) 621-0561
(036) 522-2700
Fax No.: (036) 621-1007

MINDANAO

CAGAYAN DE ORO
G/F Traveler's Life Building,
J.R. Borja St. cor. Tiano Brothers St.,
Cagayan de Oro City
Tel No.: (088) 857-4439
Fax No.: (08822) 726-060

DAVAO
Units A and B, G/F Veterans Building,
Monteverde St.,Davao City
Tel No.: (082) 227-8904
(082) 300-9374
Fax No.: (082) 226-4667

DAVAO BUSINESS CENTER
G/F HAI Building Pryce Business Park,
J.P. Laurel Ave., Davao City
Tel No.: (082) 321-7598
(082) 321-7599
(082) 321-7600

ZAMBOANGA
G/F BG Building,Veterans Ave.,
Zamboanga City 7000
Tel No.: (062) 992-6772
Fax No.: (062) 992-6759

AUTO LENDING CENTER

BACOLOD
2nd Floor R & B Building,
Hilado St. cor. Narra St.,
Capitol Shopping Center
Bacolod City 6100
Tel No.: (034) 434-7695
Fax No.: (034) 434-4108

BAGUIO
143 EDY Building,
Kisad Road, Baguio City
Tel No.: (074) 304-2104
(074) 446-7315
(074) 446-7245
Fax No.: (074) 446-7315

CAGAYAN DE ORO
Mezzanine Floor Traveler's Life Building
J.R. Borja St. cor. Tiano Brothers St.,
Cagayan de Oro City, 9000
Tel No.: (088) 857-3458
(088) 857-2457
(08822) 714-435
Fax No.: (08822) 857-2312

CALOOCAN
Unit 470 Rizal Ave. cor. 10th Ave.,
Caloocan City 1400
Tel No.: 364-5524
Fax No.: 364-5525

CEBU BUSINESS CENTER
Zenith Central, Lot 2 Blk.19 Luzon Ave.,
Cebu Business Park, Cebu City, 6000
Tel No.: (032) 520-5031 to 37
(032) 239-1807
Fax No.: (032) 520-5039

CLARK
Pavillion 8 Bertaphil 3 Compound,
Jose Abad Santos Ave.,
Clark, Pampanga
Tel No: (045) 499-2175
Fax: (045) 499-2175

DAGUPAN
270 A B. Fernandez Ave.,
Dagupan City, Pangasinan 2400
Tel No.: (075) 515-7380
(075) 529-3517
(075) 529-5043
Fax No.: (075) 515-7381

DAVAO MONTEVERDE BRANCH
Units A and B, Veterans Building,
Monteverde St., Davao City 8000
Tel No.: (082) 225-3066
(082) 225-3069
Fax No.: (082) 225-0009

ILOILO
2nd floor J & B Building
Ledesma St. cor. Mabini St.,
Iloilo City 5000
Tel No.: (033) 509-6711
(033) 337-9088
(033) 335-8141
Fax No.: (033) 337-9088

LAOAG
Brgy. 16, Villanueva St.,
Laoag City, Ilocos Norte
Tel No.: (077) 771-5873
Fax No.: (077) 770-3051

SAN FERNANDO
2nd Floor Dan's Marketing Building,
MacArthur Highway Dolores,
San Fernando, Pampanga 2000
Tel No.: (045) 961-5698
(045) 961-5699
(045) 961-5208
Fax No.: (045) 961-5013

URDANETA
MacArthur Highway,
Urdaneta City, Pangasinan 2428
Tel No.: (075) 568-4527
(075) 568-2038
Fax No.: (075) 656-2402

ZAMBOANGA
G/F BG Building,Veterans Ave.,
Zamboanga City 7000
Tel No.: (062) 991 - 6395
(062) 991 - 6195
Fax No.: (062) 991- 6195

BUSINESS CENTERS

CEBU BUSINESS CENTER
Zenith Central, Lot 2 Blk. 19
Luzon Ave., Cebu Business Park
Cebu City
Tel No.: (032) 253-4527
Fax No.: (032) 253-5043

DAVAO BUSINESS CENTER
G/F HAI Building Pryce Business Park
JP Laurel Ave., Davao City
Tel No.: (082) 321-7598
(082) 321-7599
(082) 321-7600

MAYBANK CORPORATE CENTRE
7th Avenue corner 28th St.,
Bonifacio High Street Central,
Bonifacio Global City,
Taguig City 1634
Tel No.: 588-3777

Maybank

Maybank Corporate Centre
7th Avenue corner 28th Street,
Bonifacio High Street Central,
Bonifacio Global City, Taguig City 1634
Metro Manila, Philippines

www.maybank2u.com.ph