This document does not constitute or contain any offer of shares or other securities.

OFFERING CIRCULAR **Strictly Confidential 6 May 2009**

Metropolitan Bank & Trust Company

(incorporated with limited liability in the Republic of the Philippines)

₱ 4,500,000,000 7.5% Unsecured Subordinated Notes Due 2019

Callable with Step-Up in 2014

Issue Price 100.0% face value

The ₱4,500,000,000 7.5% Unsecured Subordinated Notes Due 2019 (the "Series 2 Notes") will be issued in an aggregate principal amount of ₱4,500,000,000 by Metropolitan Bank & Trust Company ("Metrobank" or the "Bank"). The Series 2 Notes will bear interest at the rate of 7.5% per annum from and including 6 May 2009 to but excluding 6 May 2014 and interest will be payable quarterly in arrears on 6 August, 6 November, 6 February, and 6 May of each year, commencing 6 August 2009 up to and including 6 May 2014. Unless the Series 2 Notes are previously redeemed, the interest rate from and including 6 May 2014 to but excluding 6 May 2019 will be reset at the equivalent of the five-year PDST-F (as defined in the terms and conditions of the Series 2 Notes (the "Conditions") as of Reset Date multiplied by 80.0% plus a spread of 3.5310% per annum, and such interest will be payable quarterly in arrears on 6 August, 6 November, 6 February, and 6 May of each year, commencing on 6 August 2014 up to and including 6 May 2019. The Series 2 Notes will mature on 6 May 2019, if not redeemed earlier.

Subject to satisfaction of certain regulatory approval requirements, the Bank may redeem the Series 2 Notes in whole but not in part at a redemption price equal to 100.0% of the principal amount together with accrued and unpaid interest on 6 May 2014. See ''Terms and Conditions of the Series 2 Notes — Call Option'' and "Terms and Conditions of the Series 2 Notes — Call Option Amount". In addition, subject to satisfaction of certain regulatory approval requirements, the Bank may redeem the Series 2 Notes in whole, but not in part, at a redemption price equal to 100.0% of the principal amount together with accrued and unpaid interest to the date fixed for redemption upon the occurrence of certain changes affecting taxation in the Republic of the Philippines. See "Terms and Conditions of the Series 2 Notes — Redemption other than Call Option".

The Series 2 Notes will constitute unsecured and subordinated obligations of the Bank. The Series 2 Notes will rank *pari passu* and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Bank. See "Terms and conditions of the Series 2 Notes — Status and Subordination".

The Notes have been rated Baa3 by Moody's Investors Service, Inc. ("Moody's"). This rating will relate to the timely payment of interest on the Notes and the full payment of principal of the Notes on or before 6 May 2019. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The Series 2 Notes are not deposits. The Series 2 Notes are not insured by the Philippine Deposit Insurance Corporation. See "Investment Considerations" beginning on page 21 for a discussion of certain factors to be considered in connection with an investment in the Series 2 Notes.

The Series 2 Notes will be registered in scripless form and in denominations of ₱500,000.00 per Note, and increments of ₱100,000.00 beyond the minimum. The Series 2 Notes will be represented by a Master Note which will be deposited with the Registrar. It is intended that, upon issuance, the Series 2 Notes will be immobilized and lodged with the Registrar. A Registry Confirmation will be issued by the Registrar in favor of the holders of the Series 2 Notes in accordance with the regulations of the BSP. Once lodged, the Series 2 Notes will be eligible for electronic book-entry transfers in the Registry Book without the issuance of other evidences of certificates, and any sale, transfer, or conveyance of the Series 2 Notes shall be coursed through a Market Maker or on an organized exchange, as the case may be. It is also intended that, upon issuance, the Series 2 Notes will be listed in the trading platform of the Philippine Dealing & Exchange Corp. ("PDEx"). In the event of such listing of the Notes in the PDEx, the services of the Market Maker shall cease and secondary trading on the Notes would henceforth be conducted in the PDEx in accordance with the rules and regulations of PDEx.

Joint Lead Arrangers and Bookrunners

No offer or invitation or solicitation shall be made or received, and no agreement shall be made, on the basis of this document, to purchase or subscribe for any of the Series 2 Notes.

The Bank confirms that this document contains all information with respect to the Bank and its subsidiaries and associates (collectively, the "Group") and the Series 2 Notes which is material in the context of the issue and offering of the Series 2 Notes, that the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the Series 2 Notes, make this document as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect and that all reasonable enquiries have been made by the Bank to verify the accuracy of such information. The Bank accepts responsibility accordingly.

In making an investment decision, you must rely on your own examination of the Bank and the terms of the offering of Series 2 Notes, including the merits and risks involved. By receiving this Offering Circular, you acknowledge that (i) you have not relied on ING Bank, N.V. ("ING") and Standard Chartered Bank ("SCB") (together, the "Joint Lead Arrangers") or any person affiliated with the Joint Lead Arrangers in connection with your investigation of the accuracy of any information in this Offering Circular or your investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank, the Group or the Series 2 Notes other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank or the Joint Lead Arrangers.

No representation or warranty, express or implied, is made by the Joint Lead Arrangers as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offer of Series 2 Notes shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Bank or the Group since the date of this Offering Circular or that any information contained herein is correct as at any date subsequent to the date hereof.

None of the Bank, the Joint Lead Arrangers or any of their respective affiliates or representatives is making any representation to any purchaser of Series 2 Notes regarding the legality of an investment by such purchaser under applicable laws. In addition, you should not construe the contents of this Offering Circular as legal, business or tax advice. You should be aware that you may be required to bear the financial risks of an investment in the Series 2 Notes for an indefinite period. You should consult with your own advisers as to the legal, tax, business, financial and related aspects of a purchase of Series 2 Notes.

This document does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make any such offer or solicitation. Each investor in the Series 2 Notes must comply with all applicable laws and regulations in force in the jurisdiction in which it purchases or offers to purchase such Series 2 Notes, and must obtain the necessary consent, approval, or permission for its purchase, or offer to purchase such Series 2 Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchase or offer, and neither the Bank nor the Joint Lead Arrangers shall have any responsibility thereof. Interested investors should inform themselves as to the applicable legal requirements under the laws and regulations of the countries of their nationality, residence, or domicile and as to any relevant tax or foreign exchange control laws and regulations that may affect them. See "Distribution and Sale".

CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Philippines" are references to the Republic of the Philippines. All references to the "Government" herein are references to the Government of the Philippines. All references to "United States" or "U.S." herein are to the United States of America. All references to "Peso" and "₱" herein are to the lawful currency of the Philippines and all references to "U.S. dollars" or "US$" herein are to the lawful currency of the United States.

For convenience, certain Peso amounts have been translated into U.S. dollar amounts. However, such translations should not be construed as representations that the Philippine Peso or U.S. dollar amounts referred to could have been, or could

be, converted into Peso or U.S. dollars, as the case may be, at that or any other rate or at all. Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components.

Unless otherwise indicated, the description of the Bank's business activities in this Offering Circular is presented on a consolidated basis. For further information on the Group, see "Description of the Bank — Subsidiaries and Affiliates".

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OFFERING CIRCULAR SUMMARY

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified by, and must be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Offering Circular. You should read this entire Offering Circular carefully, including the Bank's consolidated financial statements and related notes and "Investment Considerations".

OVERVIEW

The Bank is a universal bank in the Philippines which provides, through itself and other members of the Group, a full range of banking and other financial products and services including corporate, commercial and consumer banking products and services as well as credit card, investment banking and trust services. Based on Securities and Exchange Commission filings (Form 17-Q) as at 31 December 2008, the Metrobank Group was the second largest in asset size in the Philippines with total assets of ₱764.8 billion, total loans and receivables (net) of ₱358.2 billion and total deposits of ₱585.3 billion.

The Group, through the Bank, offers corporate and commercial banking products and services throughout the Philippines. Corporate banking consists of banking services provided to large Philippine companies (generally with revenues in excess of ₱870 million per annum), multinational companies and Government-owned and controlled companies, whereas commercial banking consists of banking services provided to small- and medium-sized businesses. As at 31 December 2007 and 31 December 2008, corporate and commercial loans represented approximately 74.6% and 72.6% of the Group's total loan portfolio, respectively.

The Bank is also a leading provider of consumer banking products and services in the Philippines. Through its network of branches, the Bank offers a wide range of deposit, mortgage and vehicle finance products and services, targeted primarily at existing customers of the Bank. The Group also offers consumer banking products and services to the general public through Philippines Savings Bank ("PSBank"), a 76.0% owned subsidiary of the Bank.

The Group offers trust banking services, credit card services and investment banking services through subsidiaries of the Bank, and is also engaged in other businesses, certain of which are unrelated to the financial services sector. See "Description of the Bank - Subsidiaries and Affiliates".

As at 31 December 2008, the Group had a total of 723 branches in the Philippines, of which 559 were operated by the Bank and 164 were operated by PSBank. The Bank's international operations consist of branches in Taipei, New York, Shanghai, Guam, Tokyo, Seoul, Pusan and a sub-branch in Osaka, together with representative offices in Beijing and Hong Kong. The Bank also has an extensive network of remittance centers in Asia, Europe and North America which has enabled it to become a leading provider of remittance services to Overseas Filipino Workers ("OFWs").

As at 31 December 2007, the Group's audited consolidated total assets and equity were ₱716.1 billion and ₱74.5 billion, respectively. As at 31 December 2008, the Group's audited consolidated total assets and equity were ₱764.8 billion and ₱65.1 billion, respectively. Its audited consolidated net income attributable to equity holders of the Parent Company for the year ended 31 December 2007 was ₱7.0 billion, with the audited consolidated net income attributable to equity holders of the Parent Company for the year ended 31 December 2008 was ₱4.4 billion.

The Bank has been listed on the Philippine Stock Exchange ("PSE") since its initial public offering in October 1980. Its market capitalization as at 31 December 2008 was ₱41.6 billion. The Bank was founded by Dr. George S.K. Ty, the current Chairman of the Bank Group and single biggest stockholder of the Bank. As at 31 December 2008, Dr. Ty, individually and through his family and associated companies, beneficially owned approximately 54.2% of the ordinary shares, thus effectively controlling the Bank and the composition of its Board of Directors. The remainder of the ordinary shares are held by the public.

As at 31 December 2007, the Group's Tier 1 capital adequacy ratio and total capital adequacy ratio were 9.2% and 13.9%, respectively, and as at 31 December 2008 were 10.0 % and 13.4%, respectively.

HISTORY

The Bank was established on 5 September 1962 by a group of Filipino businessmen led by the current Chairman Dr. George S.K. Ty, principally to provide financial services to the Filipino-Chinese community. Since its formation, the Bank has diversified its business and now provides a broad range of banking products and services to all sectors of the Philippine economy through an extensive domestic branch network and internationally through a network of foreign branches and representative offices.

The Bank was one of the first banks in the Philippines to gain a universal banking license, which was granted by the Bangko Sentral ng Pilipinas ("BSP") in August 1981. This license allows the Bank to engage in finance-related businesses such as savings and consumer banking, credit card and leasing products and services as well as "non-allied undertakings", which currently include motor vehicle assembly, travel and real estate.

Since its establishment with its first office located in Manila, the Bank's operations in the Philippines, and in particular its domestic branch network, have expanded organically and through a series of acquisitions and mergers. Rapid expansion of the Bank's domestic branch network occurred following a change in 1993 to the BSP's policy of restricting the opening of additional branches of banks in the Philippines.

The Bank's international network of foreign branches and representative offices has grown since the opening in 1975 of its first international branch in Taipei, such growth principally being in response to the increased volume of remittances by OFWs. As a result of this growth in the Bank's international network, the Bank has been able to augment its foreign exchange sources during a period of political instability in the Philippines in which access to foreign exchange was otherwise limited.

STRATEGY

The Bank's objective is to become the leading universal banking and financial services provider in the Philippines, serving a wide range of corporate, middle market and consumer customers. To achieve this objective, the Bank will take on a two-pronged strategy: it will focus on improving efficiency and expanding the business, and at the same time, it will continue to optimize its balance sheet position.

Focus on improving efficiency

The Bank continues to look for opportunities to optimise its customer services by increasing operational efficiencies (including developing, adopting and upgrading operating platforms and service systems) in the face of heightened competition in the banking industry. A number of initiatives have been implemented to enhance the information technology ("IT") infrastructure, product delivery systems, management information systems, and risk management systems. All branches are now fully integrated into the Bank's IT systems and all branch information, such as deposit information, is centralized and updated in real time. In addition, although BSP regulations do require certain functions at each of the Bank and its subsidiaries to be operated separately, the IT systems and accounting systems have been configured and upgraded such that it allows for better information flow across these systems. The Bank believes that these developments will lead to greater productivity and, therefore, improved operating results

Expanding its core business

Corporate segment

The Bank's large corporate customer base (defined as the top 1,000 corporations in the Philippines, multinational companies and government-owned and controlled companies) is vital to the Bank's business. These customers are a source of stable income and loans to this segment generally have a lower default rate than the rest of the loan portfolio.

The strategy for the corporate segment intends to leverage on the Bank's size for two reasons:

- few local banks can compare in terms of geographic coverage; and
- fewer can compare in terms of the Bank's SBL.

The Bank intends to take advantage of its large SBL (defined as 25.0% of the Bank's net worth) and wide branch network to enhance existing relationships and build on new names. This entails active involvement in every aspect of the client's business, whether in terms of its back-office, supply chain, systems, and even its decision-making process. This process has been started with the realignment of the Corporate Banking Group into distinct market segments to provide market focus to MNCs, conglomerates, large corporates, and public sector borrowers, and the entrepreneurial firms. In addition, the Bank is expanding its service offerings to include project finance, capital markets, cash management, and derivatives to further meet the corporate segment's requirements.

The Bank has also launched multiple high quality and customized products and services, such as asset management and retirement fund products and services and investment banking services, to help further strengthen its existing relationships and to attract new customers.

Middle market

The Bank believes that the middle market, composed mainly of small and medium-scale enterprises ("SMEs") and corporate entities other than large corporate customers, offers significant growth opportunities. Being particularly strong in the commercial middle market because of its understanding of the needs of Chinese-Filipino customers (which make up a significant portion of this niche), the Bank believes there are many opportunities to strengthen its foothold in this segment.

One strategy is to strengthen relationships with existing clients by improving share of wallet – effectively getting more volume for the same risk. In addition, establishing tie-ups with entities in the early stages of their growth plans can often result in a stronger relationship once the customer grows to become a larger operation. In connection with this effort, the Bank is working to further strengthen its credit checking processes to help mitigate the increased risks associated with lending to less-established entities.

Specifically, the Bank will intensify the operations of its Branch Lending Group ("BLG"), which was set up to centralize efforts in growing the middle-market portfolio, and to free up branch heads for other sales initiatives. The BLG is manned by account officers who are highly competent in packaging middle-market deals, able to negotiate across a wider demographic and geographic market, and capable of achieving better portfolio quality. The Bank believes that setting up area-based account officers and credit support units can address customer requirements more effectively and within a short turnaround time. Under this model, the Bank has also begun revising credit processes to better support the sales units and manage credit risk.

Consumer segment

The Bank's consumer banking franchise includes home loans, vehicle finance, and credit cards. While the consumer lending market is an increasingly competitive environment in the Philippines, the Bank believes that potential returns are attractive. The Bank plans to fully utilize its large client base of over three million in retail clients and extensive branch network as major distribution channels. The Bank's consumer business will be further developed through tie-ups with property developers for end-buyers' financing, and corporate tie-ups for employee home and car loans.

Recognizing this segment's potential, the Bank began implementing the Branch Effectiveness and Sales Transformation ("BEST") project in 2005 to reorganize branches such that their focus shifts primarily to deposit-taking and retail lending. This allowed the branches to further tap into segments of the prime consumer base that may have not been targeted in the past.

In addition, the Bank continues to tap new customer segments through focused marketing campaigns and its extensive branch network, which, through BEST, has now become more sales-oriented. To support the sales and marketing efforts, back-end operations were significantly enhanced. One initiative is the development of the Insight project under the Customer Analytics Department, which will aid in understanding customers' needs, and help various product development units to better tailor-fit investment and loan products and services for the different client segments. Another is the implementation of loan-processing support programs which include an automated front-end loan processing and credit scoring system that speeds up loan approval and establishes consistent and uniform risk characteristics, and an electronic archival and retrieval system for loan documents.

Overseas Filipino remittances

Overseas Filipinos have been the fastest growing segment in the Philippine banking sector, with remittance volume reaching US$14.5 billion in 2007 and US$16.4 billion as at 31 December 2008. The Bank believes this is a business it can grow from its current 26% market share. The Bank is continuously looking to grow this segment by establishing its presence in Europe, United States, and Canada. In 2008, profits from its Asian and United States remittance businesses have significantly contributed to the Bank's revenue while prospects for its European operations have consistently been improving (still true?). The Bank is currently expanding its remittance services in the Middle East, given the region's growing economy and increasing number of overseas Filipinos working and residing there. To be able to reach its goals, the Bank has embarked on a strategy to focus on what it calls 4Es, which is namely to:

- Enhance service offerings – introduce new products and services and enhance existing ones
- Expand points of presence – particularly in the US west coast
- Engage in more partners and tie-ups – specifically in the Middle East
- Expand acquisition and distribution – with key focus on distribution, which covers payout channels in the Philippines on top of our network of branches and ATMs. This include rural banks, pawnshops, etc. which offer longer business hours and presence in rural areas

Strengthen corporate governance

The Bank recognizes that good risk management goes beyond regulatory compliance and must be part of its growth strategy and day-to-day business. With stricter corporate governance requirements and compliance targets under Basel II, the Bank aims to promote credit excellence, focus on market and operational risks, and to uphold asset quality.

To promote credit excellence, the Bank has implemented the Achieving Credit Excellence module to speed up credit processing and minimize risks, and has begun re-engineering all aspects of the lending process, from defining the Bank's credit appetite, to loan origination, evaluation, administration, monitoring, servicing, and recovery. Similar tools such as the Internal Credit Risk Rating System have been in use to rate the overall borrower and facility risk of a particular corporate or commercial counterparty. In terms of credit risk exposure in the consumer segment, a scorecard is utilized. Account risk management, terms of offering and pricing are determined by the credit risk rating of counterparties. Furthermore, the Bank recently purchased an electronic credit approval and exposures management system from Algorithmics to facilitate better credit risk management through electronic data storage for credit modeling and ensure the integrity of the credit process through system-based controls. This was a substantial investment on the part of the Bank and is a concrete manifestation of its commitment to credit risk management. To minimize market and operational risks, the Bank has upgraded its market risk management and asset-liability management systems, the refinement of all its market risk models, e.g., Value-at-Risk (VaR), Interest Rate Repricing Gap (IRRG) and Earnings at Risk (EAR), the operationalization of risk documentation and risk database to track loss events and fraud cases, and the tightening of its business continuity plan. To safeguard asset quality, the management of its non-performing assets ("NPAs") remains a priority.

Continue to improve the Bank's capital position

In 2006, the Bank initiated landmark transactions with the issuances of the US$125.0 million Hybrid Tier 1 capital securities in February and the 173,618,400 common shares out of its authorized but unissued shares of common stock at ₱38.0 per offer share in October. In October 2007, the Bank issued a further ₱8.5 billion 7.0% subordinated notes. In October 2008, the bank issued additional subordinated notes worth ₱5.5 billion with a coupon of 7.75%. These initiatives have placed the bank in a better position to take on more risk. With a total capital adequacy ratio of 13.4 % as at 31 December 2008, well above the 10.0% minimum requirement, the Group is confident that it has the capability to execute its strategy of growing its loan portfolio, whilst maintaining a conservative provisioning policy on NPAs.

Clean up the balance sheet

In conjunction with its growth strategy, the Bank continues to review opportunities to make divestments of NPAs. Over the last four years, the Bank embarked on an aggressive campaign to dispose of approximately ₱12.7 billion in non-performing loans ("NPLs") and investment properties. This resulted in a significant drop in the Group's NPL ratio from

13.1% as at 31 December 2004 to 4.5% as at 31 December 2008, and a decline in the NPA ratio from 14.1% as at 31 December 2004 to 6.0% as at 31 December 2008. The Bank has improved its early-intervention efforts to reduce the number of mortgages that need to be foreclosed. These efforts are supported by the Special Accounts Management Group ("SAMG") which is tasked to do remedial management including sale of NPLs and to initiate foreclosures before these are turned over to the Acquired Asset Management and Disposition Group ("AAMDG"), which was set up to actively manage and, where appropriate, sell properties acquired in connection with the Bank's lending activities.

The key strategies for continued NPA disposal include:

- direct sales with the help of real estate brokers;
- cross-selling of Real and Other Properties Acquired ("ROPA") through the Bank's nationwide branch network;
- volume sales with potential investors; and
- tie-ups with reputable real estate firms for joint venture initiatives.

If market conditions permit, AAMDG is looking to dispose approximately ₱2.0 billion in ROPA this year.

SUMMARY OF THE OFFERING

The following summary refers to certain provisions of the Terms and Conditions of the Series 2 Notes and is qualified by the more detailed information contained elsewhere in this Offering Circular. Capitalized terms used herein have the meaning given to them in "Terms and Conditions of the Series 2 Notes", as appropriate.

THE OFFERING

Issuer	Metropolitan Bank & Trust Company
Denomination	Minimum of ₱500,000.00 per Note, and increments of ₱100,000.00 beyond the minimum.
Governing Regulation	Bangko Sentral ng Pilipinas *(BSP)* Memorandum to All Banks and Non-Bank Financial Institutions dated 17 February 2003 and Circular Nos. 280 (2001) and 503 (2005) on the issuance of unsecured subordinated debt instruments eligible as Tier 2 capital and other related circulars and issuances, as may be amended from time to time *(the BSP Rules)*.
Issue Price	100.0% of the face value of each Note.
Issue Date	6 May 2009.
Settlement Date	Issue Date.
Use of Proceeds	To raise additional Tier 2 capital for the Issuer and to increase and strengthen its capital base.
Interest	The face value of the Note multiplied by the Initial Interest Rate (or Step-Up Interest Rate) calculated on the basis of a three hundred and sixty (360)-day year consisting of twelve (12) months of thirty (30) days each month.
Initial Interest Rate	7.5% *per annum* payable to the Noteholder for the period from and including the Issue Date up to, but excluding, the last day of the twentieth (20th) Interest Period (if the Call Option is not exercised) or up to, but excluding, the Call Option Date (if the Call Option is exercised).
Interest Periods	Consecutive three (3) calendar month periods reckoned from the Issue Date up to the numerically same day of the third (3rd) month from Issue Date, and every succeeding three (3) calendar month periods beginning on the last day of the prior period up to the numerically same day of every third (3rd) month thereafter, until the Maturity Date.
Interest Payment Date	The last day of an Interest Period, subject to the Modified Business Day Convention, except for the last Interest Payment Date which shall fall on the Maturity Date. For the avoidance of doubt, the term ***Modified Business Day Convention*** means a business or banking day convention whereby payment days that fall on a holiday or weekend roll forward to the next Banking Day, unless that day falls in the next calendar month, in which case the payment day rolls backward to the immediately preceding Banking

	Day.
Step-Up Interest Rate	(Benchmark as of Reset Date x 80.0%) plus the Step-Up Spread, payable to the Noteholders in lieu of the Initial Interest Rate beginning on the twenty-first (21st) Interest Period up to the last Interest Period in the event that the Issuer does not exercise the Call Option.
Step-Up Spread	150.0% x {Initial Interest Rate - (Initial Benchmark x 80.0%)}, which is equivalent to 3.5310%
Reset Date	The first day of the twenty-first (21st) Interest Period.
Initial Benchmark	The prevailing five (5)-year Fixed Rate Treasury Notes (*FXTNs*) as published on the PDST-F section of the Philippine Dealing and Exchange Corp (*PDEx*) Market Page under the heading "Bid Yield" as of 11:16 a.m., Manila time (or its successor benchmark rate) on the date to be mutually agreed upon between the Issuer and the Joint Lead Arrangers (the *Interest Setting Date*).
Benchmark as of Reset Date	The five (5)-year FXTNs as published on the PDST-F section of the PDEx Market Page under the heading "Bid Yield" as of 11:16 a.m., Manila time (or its successor benchmark rate) on the Banking Day immediately prior to the Reset Date. If there is no rate appearing on the PDEx Page under the heading ‘‘Bid Yield’’ as of 11:16 am, Manila time, on the Banking Day immediately prior to the Reset Date, the Public Trustee will request appropriate quotes for bid yields for a five (5)-Year FXTN from four reference banks (which shall be selected by the Public Trustee) and will determine the arithmetic mean of these bid yields (rounded upwards, if necessary, to the nearest one-sixteenth of one per cent) provided that at least three rates are so quoted.
Payment	Any payment of principal or interest under the Series 2 Notes shall be made to the Noteholders through the Paying Agent based solely on the records of the Registrar.
Call Option	On the Call Option Date, upon (x) prior approval of the BSP subject to the following conditions: (i) the capital adequacy ratio of the Issuer is at least equal to the required minimum ratio; (ii) the Note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the original issue; and (y) thirty (30)-Banking Day prior written notice to the Noteholders on record, all and not less than all of the outstanding Series 2 Notes may be redeemed at the instance of the Issuer by paying the Noteholders the face value of the Note plus accrued interest at the Initial Interest Rate.
Call Option Date	The day when the Call Option is exercised and paid by the Issuer which day shall be the first Banking Day after the twentieth (20th) Interest Period.
Call Option Amount	The face value of the Note, plus accrued Interest covering the twentieth (20th) Interest Period up to, but excluding, the Call

	Option Date, at the Initial Interest Rate. Upon the exercise of the Call Option, the tax due, if any, on the interest income already earned by the Noteholders shall be for the account of and shall be paid by the Issuer to the Noteholders concerned.
Maturity Date.....	The last day of the fortieth (40th) Interest Period from Issue Date, which is on 6 May 2019.
Maturity Value.....	The Series 2 Notes will be redeemed on Maturity Date at their Issue Price plus unpaid accrued applicable Interest.
Non-Preterminability	The Series 2 Notes shall not be redeemable or terminable at the instance of any Noteholder before Maturity Date, unless otherwise expressly provided herein.
Redemption other than Call Option.....	At any time within the first five years from Issue Date of the Series 2 Notes, upon (a) a change in tax status of the Series 2 Notes due to changes in tax laws and/or regulations or (b) the non-qualification of the Series 2 Notes as Lower Tier 2 capital as determined by the BSP, the Issuer may, upon prior approval of the BSP and at least a thirty (30)-Banking Day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Series 2 Notes prior to stated maturity by paying the Noteholder the face value of the Note plus accrued interest at the Interest Rate. All payments of principal and interest in respect of the Series 2 Notes as a result of such redemption under this paragraph shall be made free and clear of, and without withholding or deduction for, any Taxes (as defined below), unless such withholding or deduction is required by law. In that event, the Issuer shall pay to the Noteholders concerned such additional amount as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction for Taxes been required.
Form	The Series 2 Notes will be issued scripless and will be maintained in electronic form with the Registrar, subject to the payment of fees to the Registrar, and in compliance with the provisions of Rep. Act No 8792, otherwise known as the Electronic Commerce Act, particularly on the existence of an assurance on the integrity, reliability, and authenticity of the Series 2 Notes in electronic form. A Registry Confirmation, however, will be issued by the Registrar in favor of the Noteholders in accordance with the BSP Rules.
Registrar & Paying Agent.....	Philippine Depository & Trust Corp.
Public Trustee	Development Bank of the Philippines - Trust Services
Selling Agents.....	ING Bank N.V., Manila Branch Standard Chartered Bank, Manila Branch Multinational Investment Bancorporation PNB Capital and Investments Corporation
Limited Selling Agents	Metropolitan Bank & Trust Company and First Metro Investment Corporation, whose combined distribution amount will not exceed

50.0% of the total issue size in accordance with BSP Rules

Market Makers ..... Initially, ING Bank N.V., Manila Branch, Standard Chartered Bank, Manila Branch, and Multinational Investment Bancorporation and thereafter, the institution appointed by the Issuer to perform the role of market maker required under the relevant BSP Rules, and, upon listing of the Series 2 Notes in PDEx, may refer, when the circumstances warrant, to the trading participants of PDEx.

Noteholders ..... The Series 2 Notes may only be issued or transferred to such persons as may be allowed under the relevant provisions of the BSP Rules. Only Noteholders shall be entitled to Registry Confirmations and to be registered as such in the Registry.

Prohibited Noteholders ..... The following persons and entities shall be prohibited from purchasing and/or holding any Series 2 Notes of the Issuer: (1) subsidiaries and affiliates of the Issuer, including the subsidiaries and affiliates of the Issuer's subsidiaries and affiliates; or (2) unit investment trust funds managed by the Trust Department of the Issuer, its subsidiaries, and affiliates, or other related entities; or (3) other funds being managed by the Trust Department of the Issuer, its subsidiaries and affiliates or other related entities where (a) the fund owners have not given prior authority or instruction to the Trust Department to purchase or invest in the Series 2 Notes or (b) the authority or instruction of the fund owner and his understanding of the risk involved in purchasing or investing in the Series 2 Notes are not fully documented. For purposes hereof, an "affiliate" refers to a related entity linked by means of ownership of at least 20.0% to not more than 50.0% of its outstanding voting stock.

Secondary Trading ..... All secondary trading of the Series 2 Notes shall be coursed through a Market Maker or effected using the trading facilities of PDEx, as applicable, subject to the payment by the Noteholder of fees to the Market Maker or payment of applicable fees in connection with trading on PDEx, and the Registrar. Any transfer between investors of different tax status with respect to the Issue shall only be effective on an Interest Payment Date. Transfers shall be subject to the procedures of the Registrar and PDEx, including but not limited to guidelines on minimum trading lot and record dates.

The Bank intends to list the Series 2 Notes in PDEx for secondary market trading. Upon listing of the Series 2 Notes with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The secondary trading of Series 2 Notes in PDEx may be subject to such fees and charges of PDEx, the trading

participants of PDEx, and other providers necessary for the completion of such trades.

Transferability ..... Negotiations or transfers of the Series 2 Notes to one other than the Issuer prior to Maturity Date shall not constitute pre-termination.

Qualification Determination ..... Each Selling Agent and Limited Selling Agent (in the case of initial issuance of the Series 2 Notes) and each Market Maker (in the case of secondary trading of the Series 2 Notes) shall verify the identity and other relevant details of each investor and ascertain that the proposed holder or transferee of a Note is not a Prohibited Noteholder. In the event that the Series 2 Notes are listed on PDEx, the obligation to verify the identity and other relevant details of each investor and ascertain that the proposed holder or transferee of a Note is not a Prohibited Noteholder shall be performed by the trading participants of the PDEx. Final determination shall, however, rest with the Issuer.

The Noteholder shall immediately submit any and all information reasonably required by the Selling Agents, Limited Selling Agents, and/or Market Makers with respect to the qualification of the proposed holder or transferee in order to determine that such Noteholder or transferee is not a Prohibited Noteholder.

Status and Subordination..... **The Series 2 Notes will constitute direct, unconditional, unsecured, and subordinated obligations of the Issuer. Claims of all the Noteholders in respect of the Series 2 Notes will at all times rank *pari passu* without any preference among themselves.**

However, claims of all Noteholders will enjoy priority over the rights and claims of holders of all classes of equity securities of the Issuer, including holders of preference shares, if any. Noteholders or their transferees shall not be allowed, and hereby waive their right, to set off any amount that may be due the Issuer.

Upon any distribution to creditors of any assets of the Issuer in the event of any insolvency or liquidation of the Issuer, the claims of Noteholders for principal and interest in respect of the Series 2 Notes shall be subordinated in right of payment to claims (whether actual or contingent, present or future) of all depositors and creditors of the Issuer, except those creditors that are expressly ranked equally with or junior to the Noteholders in right of payment.

THE SERIES 2 NOTES, LIKE OTHER SUBORDINATED INDEBTEDNESS OF THE ISSUER, ARE SUBORDINATED TO THE CLAIMS OF DEPOSITORS AND ORDINARY CREDITORS, ARE NOT DEPOSITS, AND ARE NOT GUARANTEED NOR INSURED BY THE ISSUER OR ANY PARTY RELATED TO THE ISSUER, SUCH AS ITS SUBSIDIARIES AND AFFILIATES, OR THE PHILIPPINE DEPOSIT INSURANCE CORPORATION, OR ANY OTHER

PERSON. THE SERIES 2 NOTES ARE NOT COVERED OR SECURED BY ANY OTHER ARRANGEMENT THAT LEGALLY OR ECONOMICALLY ENHANCES THE PRIORITY OF THE CLAIM OF ANY NOTEHOLDER AS AGAINST DEPOSITORS AND OTHER CREDITORS OF THE ISSUER.

The Series 2 Notes shall not be used as collateral for any loan made by the Issuer or any of its subsidiaries or affiliates.

Taxation ..... If any payments of principal and/or interest under the Series 2 Notes shall be subject to deductions or withholdings for or on account of any present taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the Taxes), then such Taxes shall be for the account of the Noteholder concerned, and if the Issuer shall be required by law or regulation to deduct or withhold such Taxes, then the Issuer shall make the necessary withholding or deduction for the account of the Noteholder concerned; provided, however, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant Noteholder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar; and provided, further, that documentary stamp tax for the primary issue of the Series 2 Notes and the documentation, if any, shall be for the Issuer's account.

In the event that (a) due to a change in tax status of the Series 2 Notes because of changes in tax laws, any payments of principal and/or interest under the Series 2 Notes shall be subject to deductions or withholdings for or on account of any taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the ***New Taxes***), and (b) the Issuer does not redeem the Series 2 Notes prior to stated maturity pursuant to the Master Note and the BSP Rules, then all payments of principal and interest in respect of the Series 2 Notes shall be made free and clear of, and without withholding or deduction for, any such New Taxes. In that event, the Issuer shall pay to the Noteholders concerned such additional amount as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction for New Taxes been required.

Banking Day..... Any day in a week, other than Saturday or Sunday, when banks are not required or authorized to close in Makati City.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The following summary financial information has been derived from the consolidated financial statements of the Bank and its subsidiaries contained elsewhere in this document, and is qualified in its entirety by reference to such financial statements, including the notes thereto. The audited annual financial statements have been prepared in accordance with Philippine Financial Reporting Standards ("PFRS"). The translation of Peso amounts to U.S. dollars at the specified rate below is provided for convenience only.

	For the year ended 31 December			
	2006	2007	2008	2008
		(audited)		
Consolidated statements of income data		(₱ millions)		(US$ millions)[1]
Interest income	38,923.5	38,383.5	41,714.1	877.8
Interest expense	19,824.9	16,917.7	18,644.8	392.4
Net interest income	19,098.6	21,465.8	23,069.3	485.4
Provision for probable losses	8,097.1	7,787.0	3,248.5	68.4
Other income	14,521.1	16,301.9	12,477.5	262.6
Other expenses	20,222.0	22,173.9	24,194.2	509.1
Provision for (Benefit from) income tax	(775.7)	88.3	3,027.4	63.7
Net income	6,076.3	7,718.5	5,076.7	106.8
Minority interests	551.3	675.1	668.8	14.1
Net income attributable to equity holders of the Parent Company	5,525.0	7,043.4	4,407.9	92.7

Note:

(1) The exchange rate used is ₱47.52 = US$1.00 on 24 December 2008.

	As at 31 December			
	2006	2007	2008	2008
		(audited)		
Consolidated statements of condition data		(₱ millions)		(US$ millions)
Cash and other cash items ...	11,830.0	13,840.0	18,699.9	393.5
Due from Bangko Sentral ng Pilipinas.....	54,326.8	75,770.3	91,637.7	1,928.4
Due from other banks	28,333.3	30,227.7	60,870.2	1,280.9
Interbank loans receivable and securities purchased under agreements to resell	68,293.2	81,156.3	19,910.4	419.0
Trading and investment securities – net.....	117,411.2	122,259.9	128,393.9	2,701.9
Loans and receivables – net.	284,555.0	304,897.8	358,163.0	7,537.1
Property and equipment – net.....	10,376.4	16,326.1	12,421.9	261.4
Investments in subsidiaries, associates and joint ventures – net	7,707.4	5,099.3	19,107.2	402.1
Investment properties – net .	33,963.0	31,435.8	27,380.3	576.2
Other assets– net(3).....	31,990.5	35,054.6	28,224.9	594.0
Total assets	648,786.8	716,067.8	764,809.4	16,094.5
Deposit liabilities.....	489,882.2	529,542.8	585,306.8	12,317.1
Bills payable	40,178.2	58,426.0	58,292.8	1,226.7
Manager's checks and demand drafts outstanding	1,580.4	3,021.0	1,554.9	32.7
Accrued taxes, interest and other expenses	5,862.3	6,909.7	6,021.6	126.7
Subordinated debt.....	17,796.4	18,620.2	15,856.4	333.7
Other liabilities	21,311.9	25,072.5	28,772.4	605.5
Minority interest	3,902.0	3,960.0	3,912.3	82.3
Equity	68,273.4	70,515.6	65,092.2	1,369.8
Total liabilities and equity ...	648,786.8	716,067.8	764,809.4	16,094.5

Note:

(1) The exchange rate used is ₱41.28 = US$1.00 on 28 December 2007.

(2) The exchange rate used is ₱47.52 = US$1.00 on 24 December 2008.

(3) Other assets-net is composed of Deferred assets, Goodwill and Other Assets.

	As at or for the year ended 31 December		
	2006[1]	2007	2008
Selected financial ratios			
Return on average assets[2]	1.0	1.0	0.6
Return on average equity[3]	10.3	10.2	6.5
Net interest margin on average earning assets[4]	3.7	3.8	3.8
Cost to income ratio[5]	60.1	58.7	68.1
Loans to deposits[6]	57.6	56.8	59.6
Tier 1 capital adequacy ratio[7]	12.5	9.2	10.0
Total capital adequacy ratio[8]	17.7	13.9	13.4
Total shareholders' equity to total assets[9]	10.5	9.8	8.5
Total non-performing loans (including Loans Held by SPV) to total loans[10]	11.0	9.3	7.6
Total non-performing loans (excluding Loans Held by SPV) to total loans[11]	6.9	5.3	4.5
Allowances for credit losses to total loans[12]	4.3	3.0	2.8
Allowances for credit losses to total non-performing loans (including Loans Held by SPV)[13]	38.6	32.0	37.1
Allowances for credit losses to total non-performing loans (excluding Loans Held by SPV)[14]	61.5	56.0	62.6
Non-accruing loans (including Loans Held by SPV) to total loans[15]	10.8	8.9	7.7
Non-accruing loans (excluding Loans Held by SPV) to total loans[16]	6.7	4.9	4.6
Earnings per share	3.1	3.6	2.2

Notes:

(1) Certain items have been restated to reflect changes in the Bank's accounting policies for the adoption of PFRS and PAS that became effective in 2005.

(2) Net income divided by average total assets for the period indicated.

(3) Net income divided by average total equity for the period indicated.

(4) Net interest income divided by average interest-earning assets.

(5) Total operating expenses (excluding Provisions for Impairment and Credit Losses and Income Tax) divided by the sum of net interest income and other income.

(6) Total loans divided by total deposits (excluding from other banks).

(7) Tier 1 capital divided by total risk-weighted assets (non-consolidated).

(8) Total capital divided by total risk-weighted assets (non-consolidated).

(9) Total equity divided by total assets.

(10) Total non-performing loans (including Loans Held by SPV) divided by total loans. “Loans held by SPV” refers to the principal value and interest on non-performing assets which have been sold by the Bank to special purpose vehicles owned and controlled by entities unrelated to the Bank

(11) Total non-performing loans (excluding Loans Held by SPV) divided by total loans.

(12) Total allowance for credit losses divided by total loans.

(13) Total allowance for credit losses divided by total non-performing loans (including Loans Held by SPV).

(14) Total allowance for credit losses divided by total non-performing loans (excluding Loans Held by SPV).

(15) Non-accruing loans (including Loans Held by SPV) divided by total loans.

(16) Non-accruing loans (excluding Loans Held by SPV) divided by total loans.

INVESTMENT CONSIDERATIONS

Before investing in the Series 2 Notes, prospective investors should carefully consider all the information contained in this Offering Circular, including the investment considerations described below, before making an investment decision. The business, financial condition, and results of operations of the Bank could be materially and adversely affected by any of these investment considerations. The market price of the Series 2 Notes could decline due to any one of these risks, resulting in loss of all or part of the initial investment in the Series 2 Notes. The following discussion is not intended to be a comprehensive discussion of the risks and other factors and is not in any way meant to be exhaustive. Investors are encouraged to make their own independent, legal, financial, and business examination of the Bank and the market. Neither the Bank nor the Joint Lead Arrangers make any warranty or representation on the marketability, price, or market increments or profits that may arise out of any investment in the Series 2 Notes.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.

CONSIDERATIONS RELATING TO THE PHILIPPINES

The Group's operations are concentrated in the Philippines, and therefore any downturn in general economic conditions in the Philippines could have a material adverse impact on the Group

Historically, results of operations have been influenced, and will continue to be influenced, to a significant degree by the general state of the Philippine economy. As a result, the Group's income and results of operations depend, to a significant extent, on the performance of the Philippine economy. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the peso and the imposition of exchange controls.

From mid-1997 to 1999, the economic crisis in Asia adversely affected the Philippine economy, causing a significant depreciation of the peso, increases in interest rates, increased volatility and the downgrading of the Philippine local currency rating and the ratings outlook for the Philippine banking sector. These factors had a material adverse impact on the ability of many Philippine companies to meet their debt-servicing obligations. While the Philippine economy has generally registered positive economic growth since 1999, it continues to face a significant budget deficit, limited foreign currency reserves, a volatile peso exchange rate and a relatively weak banking sector. In 2006, GDP growth was at 5.4% while GNP growth was at 6.1%. In 2007, GDP growth increased to 7.3%. In 2008, GDP growth slowed down to 4.5%. Prospects for future growth remain uncertain with the global economic crisis threatening to curb consumption and export demand from emerging market economies including the Philippines. Any deterioration in the Philippine economy may adversely affect the Group's borrowers and counterparties. There can be no assurance that current or future governments will adopt economic policies conducive to sustaining economic growth.

In addition, the strength of the Philippine economy is influenced and affected by global factors, including the performance of other national and regional economies and the global economy, in general. Any change in the health and performance of other national economies, in particular, that of the United States and/or the global economy, could adversely affect the Philippine economy and the Group's businesses.

An increase in interest rates could decrease the value of the Bank's securities portfolio and raise the Bank's funding costs

Interest rates in the Philippines have remained steady in recent years as the BSP sought to stimulate sustainable growth and employment through encouraging long-term stability in the economy. However, in response to concerns about inflation, in June 2008, BSP raised its overnight borrowing rate to 5.25% and its overnight lending rate to 7.25%. This was followed by a further increase in July 2008 to 5.75% and 7.75% respectively. In August 2008, the BSP again raised its overnight borrowing rate to 6% and its overnight lending rate to 8% to help further manage inflation expectations. Although the BSP has from that time decreased the borrowing rate to 4.75% to spur growth, there can be no assurance that interest rates will not be raised again should there be future price shocks or further concerns about inflation.

The Bank realizes income from the margin between income earned on its assets and interest paid on its liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest

rates. As a result, volatility in interest rates could have a material adverse effect on the Bank's financial condition, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimize the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial condition and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration in the Bank's credit portfolio.

Volatility in the value of the Peso against the U.S. dollar and other currencies could adversely affect the Group's business

During the last decade, the Philippine economy has, from time to time, experienced depreciations of the Peso and limited availability of foreign exchange. In July 1997, the BSP announced that it would allow market forces to determine the value of the Peso. Since 30 June 1997, the Peso has experienced periods of significant depreciation and has declined from ₱29.00 = US$1.00 (period average) in July 1997 to a low of ₱49.90 = US$1.00 for the month ended (period average) December 2000. In recent years, the Peso has appreciated and the exchange rate (period average) has gone from ₱56.04 = US$1.00 in 2004 to ₱47.52 = US$1.00 as at December 2008. Although the Philippine Peso has appreciated against the US dollar over the past five years, there is no assurance that the peso will not experience depreciation in the future.

Future declines in the value of the Peso against foreign currencies may affect the ability of the Bank's customers to service debt obligations denominated in foreign currencies and may increase the level of non-performing loans. Furthermore, under BSP guidelines, banks, shall at all times, comply with 100.0% FCDU/EFCDU asset cover and 30.0% liquidity cover. As at 31 December 2007, the Bank had ₱591.6 billion of assets (of which ₱113.6 billion were in its FCDU books) and P113.6 billion of liabilities denominated in foreign currencies. As at 31 December 2008, the Bank had ₱630.1 billion of assets (of which ₱112.0 billion were in its FCDU books) and P112.0 billion of liabilities denominated in foreign currencies. The Bank has entered into foreign exchange forward contracts as a means of hedging against foreign currency fluctuations. However, there can be no assurance that the Bank will be able to successfully hedge its exposure to foreign currency risks.

In addition, changes in currency exchange rates may result in significantly higher domestic interest rates, liquidity shortages and capital or exchange controls. This could result in a reduction of economic activity, economic recession, sovereign or corporate loan defaults, lower deposits and increased cost of funds. The foregoing consequences, if they occur, would have a material adverse effect on the Group's financial condition, liquidity and results of operations.

The low credit ratings of the Government may adversely affect the Bank's business

On 17 January 2005, Standard & Poor's Rating Services ("S&P") lowered its long-term foreign currency sovereign credit rating for the Philippines to "BB-" from "BB", and its long-term local currency sovereign credit rating for the Philippines to "BB+" from "BBB-". S&P also lowered its short-term local currency sovereign credit rating on the Government to "B" from "A-3", and affirmed its short-term "B" foreign currency sovereign credit rating. S&P noted that its downgrades reflected the Government's inadequate response to its fiscal problems, citing little progress on the Government's attempts to raise tax revenue and the Government's dependence on foreign debt. On 7 February 2006, S&P affirmed its "BB-"/"B" foreign currency and "BB+"/"B" local currency ratings, but revised its outlook from negative to stable, pointing to revised expectations following policy continuity and adherence to fiscal consolidation. S&P affirmed its ratings on the Philippines on 18 May 2007, citing the considerable progress made by the current administration in addressing key credit constraints like narrow revenues and associated fiscal shortfalls. S&P again affirmed the country's ratings and outlook on 18 April 2008 but cited that the country is still relatively highly vulnerable to economic and policy shocks. On 27 January 2005, Moody's Investors Service, Inc. ("Moody's") also lowered its long-term foreign currency sovereign credit rating for the Philippines from "Ba2" to "B1". On 7 February 2006, Moody's affirmed its "B1" rating and its negative outlook, citing lingering political worries and the government's ability to raise tax revenue from the new value-added tax law. In May 2006, Moody's revised its foreign currency country ceilings to better reflect reduced risk of a payments moratorium in wake of a government default. The new country ceiling was changed to Ba3 from B1. On 2 November 2006, Moody's upgraded its outlook on the country's key ratings to stable, reaffirming the nation's substantial progress

in implementing key economic reforms. Citing the nation's improving economy and a narrowing budget deficit, Moody's further raised the country's credit rating outlook to positive on 25 January 2008.

On 14 February 2006, Fitch Ratings affirmed the country's "BB" foreign currency and "BB+" local currency ratings, and the "B" short-term and "BB" country ceiling ratings. On 19 April 2006, Fitch Ratings revised its negative outlook to stable, citing improving fiscal performance and a more settled political environment and on 18 August 2006, it revised the country's ceiling ratings from "BB" to "BB+". It has since then maintained its stable outlook on the country's ratings

The low sovereign ratings of the Government directly adversely affect resident companies in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Moody's, S&P, Fitch Ratings or any other international credit rating agency will not downgrade the credit ratings of the Government and, therefore, Philippine companies, including the Bank. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Bank, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available. Interest rates on floating rate Peso denominated debt would also be likely to increase. Finally, low or lower credit ratings of the Government and, therefore, Philippine companies may materially adversely affect the financial condition of the Bank's borrowers and counterparties, which would materially adversely affect the Group's business, financial condition and results of operations, including the Group's ability to grow its asset portfolio, the quality of its assets and its ability to implement its business strategy.

The disruptions recently experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants

The disruptions recently experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

Any political instability in the future may have a negative effect on the general economic conditions in the Philippines which could have a material impact on the financial results of the Bank and the Group

The Philippines has from time to time experienced political instability. No assurance can be given that the political environment in the Philippines will be stable and that current or future governments will adopt economic policies conducive to sustained economic growth, and we cannot make any assurance that the Bank will not be affected, materially or otherwise, by any change in the Philippine political environment.

In 2001, following an impeachment trial, mass demonstrations and the military declaration of its withdrawal of support, former President Joseph Estrada was removed from office. Then Vice President Gloria Macapagal Arroyo was installed as President of the Philippines on January 20, 2001.

National and local elections were held on May 10, 2004. Notwithstanding the protest rallies and several disqualification cases filed against President Arroyo (none of which prospered), she and Senator Noli De Castro were proclaimed by Congress as President and Vice President, respectively on June 24, 2004. In 2005, President Arroyo was alleged to have committed fraud in the 2004 national elections based on taped conversations she supposedly had with an official of the Commission on Elections ("Comelec"). After President Arroyo admitted to speaking with a Comelec official, several cabinet members resigned from their posts and, along with opposition groups, called for her resignation. Impeachment complaints were then filed against President Arroyo, but the House of Representatives eventually voted to reject the impeachment complaints. Impeachment complaints were re-filed in 2006 and 2007 and have also been rejected.

In February 2006, the Government thwarted a coup plot supposedly involving certain military rebels and communists. President Arroyo put the country under a state of emergency, citing an alleged tactical alliance between right- and left-

wing enemies of the state and a conspiracy over broad front to topple the Government. The state of emergency was lifted after a week.

In November 2007, a group of military rebels together with a senator walked out of their trial in Makati City and occupied the second floor of the Manila Peninsula Hotel calling for President Arroyo to resign. They were soon joined by a few church officials and former Vice President Teofisto Guingona who appealed to the public for support. After a few hours, the mutinous group agreed to surrender to avoid bloodshed.

Since 2007, the Philippine Senate has been conducting inquiries into the allegedly anomalous US$329 million deal to construct the National Broadband Network. In February 2008, former Philippine Forest Corporation president Rodolfo Noel Lozada Jr. testified in the Senate and accused key Arroyo allies of overpricing the deal and receiving and/or demanding hefty commissions for the implementation of said deal. The controversy has again fueled mass protests by various cause-oriented groups calling for the President to resign.

The Arroyo administration has been pushing for changes to the Philippine Constitution including, among others, a change in the form of government from presidential to parliamentary. However, the Philippine Supreme Court recently ruled to deny petitions to allow a People's Initiative that would have made constitutional changes possible through an abbreviated process and a plebiscite.

Another impeachment complaint against President Arroyo was filed, citing the NBN controversy. This, however, has not yet been taken up by Congress and falls within the constitutional ban prohibiting the filing of an impeachment complaint within one year from the filing of the last impeachment complaint.

In August 2008, certain members of a long-standing secessionist group, the Moro Islamic Liberation Front ("MILF"), launched attacks on government troops and civilians, including damage to property, following a stall in the signing of the Memorandum of Agreement on Ancestral Domain ("MOA-AD"), the result of peace talks between the Philippine Government and the MILF in an effort to promote mutual cooperation and preserve the development of Mindanao. The delay came on the heels of allegations that the MOA-AD was essentially ceding highly developed portions of Mindanao to the secessionists without a popular consensus, thus compromising national identity and granting sovereignty to the MILF. The attacks have decreased with the onset of Ramadan, but are nonetheless far from abated. The government continues to hold out on the MOA-AD signing.

General elections are expected to be held in 2010.

No assurance can be given that the future political environment in the Philippines will be stable or that current or future Governments will adopt economic policies conducive to sustaining economic growth. Political instability in the Philippines could negatively affect the general economic conditions in the Philippines which could have a material impact on the financial results of the Bank and the Group.

An increase in the number of terrorist activities in the Philippines could negatively affect the Philippine economy and, therefore, the Group's financial condition and its business

The Philippines has been subject to a number of terrorist attacks in recent years. An increase in the number of terrorist activities in the Philippines could negatively affect the Philippine economy and, therefore, the Group's financial condition and its business.

The Philippine army has been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network and has been identified as being responsible for kidnapping and terrorist activities in the Philippines. There has been a series of bombings in the Philippines, mainly in southern cities. Although no one has claimed responsibility for these attacks, Philippine military officials have stated that the attacks appeared to be the work of the Abu Sayyaf organization. On February 24 2004, a bomb exploded on a Superferry ship off the coast of Manila, causing the vessel to sink, killing 116 people. On 14 February 2005, three bombs exploded in the cities of General Santos, Davao and Makati, killing at least 11 people and injuring over 100 people. On 8 June 2008, gunmen believed to belong to the Abu Sayyaf Group abducted broadcast journalist Ces Drilon of ABS-CBN, her two cameramen and a professor of Mindanao State University in Sulu but were released 10 days later. On 15 January 2009, three workers from the International Committee of the Red Cross were also abducted by members of the group.

There can be no assurance that the Philippines will not be subject to further, or an increased number of, acts of terrorism in the future. Terrorist attacks have, in the past, had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy and, in turn, the Group's business. Furthermore, there can be no assurance that the Philippines will not suffer a large-scale terrorist attack which cripples the Philippine economy for a significant period of time.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries

While a principal objective of the Philippine securities laws and the listing rules of the Philippine Stock Exchange ("PSE") is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Bank, than is regularly made available by public companies in the U.S. and other countries. Furthermore, although the Bank complies with the requirements of the PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Securities Regulation Code requires the Bank to have at least two independent directors or such number of independent directors as is equal to 20.0% of the Board, whichever is the lower number. The Bank usually has three independent directors. Many other jurisdictions require significantly more independent directors.

Financial statements of Philippine banks are prepared in accordance with Philippine Financial Reporting Standards which require the use of certain critical accounting estimates. Management of institutions are to use their own judgment to come up with estimates on certain balance sheet and income statement accounts such as, but not limited to, impairment losses on loans and receivables; fair value of derivatives; impairment of available-for-sale and held-to-maturity securities; and realization of deferred income tax assets among others.

CONSIDERATIONS RELATING TO THE BANK AND THE GROUP

The Group's provisioning policies in respect of impairment losses have changed from 1 January 2005 and may be subject to future changes, which may result in significant changes in the size of the Group's allowance for impairment losses and non-performing loan portfolio

Prior to the adoption of PAS 39, Financial Instruments: Recognition and Measurement, effective 1 January 2005, which is described in greater detail below, the Group set the amount of impairment allowance on a specific loan depending on its classification under the BSP's classification system. The BSP requires the Group to classify loans into "especially mentioned", "substandard", "doubtful" and "loss" categories. The Group adopted PAS 39 beginning 1 January 2005.

PAS 39 establishes the accounting and reporting standards for recognizing and measuring financial assets and financial liabilities. This standard requires the Group to initially recognize financial assets and financial liabilities at cost, which is the fair value of the amounts paid (in the case of an asset) or received (in the case of a liability). Subsequent to initial recognition, PAS 39 requires the Group to continue measuring financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are measured at fair value.

In determining whether a financial asset is impaired, PAS 39 requires the Group to calculate discounted cash flows to be derived from collections on non-performing loans or sales of collateral. Prior to 1 January 2005, the Group determined the adequacy of allowance for impairment losses on loans and other receivables and risk assets based on management criteria and the BSP's loan classification system as described above. Since the adoption of the methodology prescribed by PAS 39, the Group has recognized higher provisions for loan loss as a result of lower future discounted cash flows to be received in respect of non-performing loans. For the year ended 31 December 2005, as a result of the application of PAS 39 in the preparation of the Group's financial statements for this period, the Group recognized increased provisions for credit and impairment losses from ₱2.9 billion for the year ended 2004 to ₱4.5 billion for the year ended 2005. The Group's provisions for credit and impairment losses for the years ended 31 December 2006, 31 December 2007, and 31 December 2008 were ₱8.1 billion, ₱7.8 billion, and ₱3.2 billion respectively.

Under PAS 39, the Group is required to charge against its surplus any adjustments resulting from the adoption of such standards at its effective date for the Group on 1 January 2005. This resulted in a reduction of the Bank's surplus on a

consolidated basis as at 1 January 2005 by ₱5.2 billion. This reduction has taken into account the reversal of general reserves existing as of that date as required by PAS 32. Any future impairment of asset values of the Group will result in the impairment being recognized in the Bank's consolidated statement of income as increased provisions for impairment losses.

The adoption of these new accounting standards has resulted in an adverse effect to the Bank's surplus as at 31 December 2005, which prompted the issuance by the Bank of the US$125.0 million of hybrid Tier 1 capital securities (9.0% non-cumulative step-up callable perpetual capital securities) in February 2006. The reduction in the Bank's surplus as at 31 December 2005 as a result of the adoption of the new reporting and accounting standards under PAS and PFRS and any future reduction in the Bank's surplus may adversely affect the Bank's ability to comply with BSP and other regulatory requirements as to capital reserves and equity/capital based ratios and may adversely affect the Bank's future financial condition and results of operations.

The Group's allowance for impairment losses may be insufficient to cover future losses

Prior to the year ended 31 December 2005, the Group determined its allowance for impairment losses based on assumptions and estimates regarding its customers, the value of collateral it holds and the Philippine economy as a whole. However, from 1 January 2005, under PAS 39, the Group evaluates loan loss allowances principally based on discounted cash flow analysis. The Group's actual loan losses could prove to be materially different from the Group's estimates and could materially exceed its recorded allowance for impairment losses.

If the Group's actual loan losses are higher than it currently expects, the Group's current allowance for impairment losses could be insufficient. If general economic conditions in the Philippines deteriorate, causing the Group to change some of its assumptions and estimates, or if the Group is adversely affected by other factors to an extent worse than anticipated, the Group may have to provide an additional allowance for impairment losses.

Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular, that upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in more developed countries due to:

- the greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- the general dependence of the Philippine economy on exports for economic growth;
- the large foreign debt of the Government and corporate sectors relative to the gross domestic product of the Philippines; and
- the greater volatility of interest rates and Peso/U.S. dollar exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank and PSBank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Group's financial condition, liquidity and results of operations. According to data published by the BSP, average non-performing loan ratios (including interbank loans) in the Philippine banking system were 5.7%, 4.5%, and 3.5% as at the years ended 31 December 2006, 2007 and 2008, respectively.

The Bank's ability to assess, monitor and manage risks inherent in its business is limited by the quality and timeliness of available data

The Bank is exposed to a variety of risks, including credit risk, market risk, and operational risk. The effectiveness of the Bank's risk management, in particular its credit risk management may be limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, some risk analysis reports of the Bank cannot be

calculated or otherwise generated on a daily basis due to limitations of the Bank's systems. Although the Bank has invested in a data warehouse, information from some operating divisions of the Bank is not consolidated into the data warehouse on a timely basis. See "Description of the Bank – Risk Policy and Management". Currently, the asset-liability gap position of the Bank may be calculated based on information that is up to one week old. This current limitation in the Bank's risk management systems may result in the Bank making loans or taking positions that expose the Bank and the Group to significant credit risks or otherwise result in the Group being over exposed to interest rate, liquidity, and foreign exchange rate risks. To address this limitation, the bank is finalizing the implementation of an automated risk management system that will provide daily asset-liability gap positions by 2009. Additionally, planning stages for the implementation of automated market and liquidity risk management systems to other subsidiaries has begun and is expected to be rolled out in 2009.

The Bank's treasury and risk management functions and systems are conducted separately from its subsidiaries. Group exposure measurements are underway and set for daily measurements in 2009

Treasury functions, including trading, investment, and risk management functions, are conducted separately at each of the Bank, PSBank and FMIC. Currently, BSP regulations mandate that certain risk management functions and systems be managed and installed on an entity-by-entity basis. Nonetheless, the Bank has made preparations to address the requirement of consolidating possible exposures related to its subsidiaries or to the Group as a whole to assess properly the credit, market, foreign exchange and other operational risks on a Group-wide basis. As noted earlier, the subsequent rollout of automated market and liquidity risk management systems to other subsidiaries will mitigate risks that may arise from the Bank's inability to recognize or assess risks properly.

The Group may face increasing levels of non-performing loans and provisions for credit losses

The Group's results of operations have been, and continue to be, negatively affected by the level of its non-performing loans. For the years ended 31 December 2006, 2007, and 2008, the Group's provisions for credit losses on receivables from customers were ₱7.2 billion, ₱3.6 billion, and ₱2.7 billion respectively, representing approximately 37.8%, 16.9%, and 11.9% of the Group's net interest income for these periods. Ongoing volatile economic conditions in the Philippines may adversely affect the ability of the Group's borrowers to finance their indebtedness and, as a result, the Group may continue to experience an increase in non-performing loans and provisions for credit losses. The Group's non-accruing loans (including Loans Held by SPV), as defined by BSP Circular No. 248, decreased by 12.0% to ₱26.8 billion as at 31 December 2007 from ₱30.5 billion as at 31 December 2006. As at 31 December 2008, the Group's non-accruing loans (including Loans Held by SPV), amounted to ₱26.8 billion (representing 7.7% of the Group's total loans as at that date). In addition, the Group's provision for credit losses on receivables from customers for as at 31 December 2008 was ₱2.7 billion.

Volatile economic conditions in the Philippines, including volatile exchange and interest rates, continue to adversely affect many of the Group's customers, causing uncertainty regarding their ability to fulfil obligations under the Group's loans and significantly increasing the Group's exposure to credit risk. These and other factors could result in an increased number of non-performing loans in the future. Any significant increase in the Group's non-performing loans would have a material adverse effect on its financial condition, capital adequacy and results of operations.

If the assets transferred to Asia Recovery Corporation, and subsequently to Hypo-und Vereinsbank, were consolidated into the Group's loan portfolio, the Group's total non-performing loans and allowance for impairment losses would have been higher than that stated in the Bank's consolidated financial statements and elsewhere throughout this Offering Circular

The Group's level of non-performing loans and allowance for impairment losses were positively impacted by the sale of ₱16.3 billion in principal value of non-accruing loans to Asia Recovery Corporation ("ARC") in November 2003. As a result of this transaction, the Bank received consideration from ARC equal to ₱5.0 billion in cash and ₱11.9 billion in the form of subordinated debt securities, and the non-accruing loans sold to ARC and the related allowance for impairment loses were removed from the Bank's statements of condition. However, the Bank determined in the year ended December 31, 2004 that, under Standing Interpretations Committee 12, the Bank is required to consolidate ARC into its financial statements. This resulted in the assets of ARC being included under "Other Assets", rather than being re-included in the Group's loan portfolio. If the assets of ARC were consolidated into the Group's loan portfolio as at 31 December 2007 and 2008, the Group's total non-performing loans would have been equal to ₱27.9 billion and ₱26.5 billion respectively

and its allowance for impairment losses on non-performing loans would have been equal to ₱12.3 billion and ₱13.9 billion respectively. In April 2006, ARC sold ₱13.6 billion of non-accruing loans to Hypo-und Vereinsbank ("HVB"), and HVB issued subordinated notes with a face value of ₱12.0 billion (the "HVB Notes") to the Bank. The Group consolidates HVB in its financial statements on the same basis that it previously consolidated ARC. Although the Group does not have any equity interest in HVB, the Group retains a significant amount of risk related to the non-performing assets held by HVB as a result of the ₱12.0 billion principal amount of HVB Notes held by the Group.

The Group's restructured loans may become non-performing due to the way these loans have been structured or otherwise as a result of inherent weaknesses of the borrower

In the restructuring of a number of its loans, the Group has agreed with borrowers to set interest payments at a relatively low level for a certain time frame, followed by much larger payments of interest in later periods. The lower level of initial payments increases the likelihood that a restructured loan will be reclassified as a performing loan as, generally, a restructured loan is reclassified as a performing loan once three consecutive payments of the required amortization of principal and/or interest are made. However, future payments that are significantly higher than the initial payments may cause the loan to be reclassified as non-performing if the borrower is unable to meet its higher payment obligations. In addition, in the experience of the Group, loans that have been restructured and are reclassified as performing loans are, in general, more likely to become non-performing loans in the future, compared to other loans. During 2007, ₱4.9 billion of restructured loans was reclassified as non-performing loans. As at 31 December 2008, the Group had ₱11.9 billion of restructured loans in its loan portfolio, ₱6.5 billion of which was included under the Bank's performing loans. If a significant number of the Group's customers are unable to meet their payment obligations under restructured loans, the Group's non-performing loan portfolio will increase, thereby requiring additional allowances, and may otherwise have a material adverse effect on the Group's financial condition and results of operations.

The Group has high concentrations of loans to a relatively small number of customers and sectors, which increased the Group's risks

The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0% of its net worth. The Bank's single largest corporate borrower accounted for 3.0% of the Bank's outstanding loan portfolio as at 31 December 2007 and for 3.4% as of 31 December 2008. As at 31 December 2007 and 31 December 2008, the Bank's ten largest performing borrowers (including groups of individuals and companies) accounted for ₱55.9 billion, or 18.6%, and ₱66.6 billion, or 24.1%, respectively, of the Bank's outstanding loan portfolio.

As at 31 December 2008, 56.2% of the Group's gross loan portfolio was concentrated in three sectors, with 23.3% in the manufacturing sector, 16.6% in the wholesale and retail trade sector, and 16.3% in the real estate sector. The majority of lending to these sectors takes the form of working capital loans and trade financing.

As the Group's loan portfolio is highly concentrated by borrower and by sector, if loans to any large borrowers become non-performing or if there are any financial difficulties encountered by any of the sectors in which the Group's loans are concentrated, the quality of the Group's total asset portfolio and its financial condition could be adversely affected.

The Group may be unable to recover the assessed value of its collateral when its borrowers default on their obligations which may expose the Group to significant losses

The Group may not be able to recover the value of any collateral or enforce any guarantee due, in part, to the difficulties and delays involved in enforcing such obligations in the Philippine legal system. In order to foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements which are more burdensome than in certain other jurisdictions. The resulting delays may last several years and lead to deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, the Group to legal liability while in possession of the collateral. These difficulties may significantly reduce the Group's ability to realize the value of its collateral and therefore the effectiveness of taking security for the loans it makes. Under PAS 40, the Group carries the value of the foreclosed properties at the fair value at the time of foreclosure and, in the case of depreciable property,

depreciated over such property's useful life. While the Group, at each balance sheet date, provides for impairment losses on its foreclosed properties in accordance with Philippine GAAP, it may incur further expenses to maintain such properties. In realizing cash value for such properties, the Group may incur further expenses such as legal fees and taxes associated with such realization. There can be no assurance that the Group will be able to realize the full value, or any value, of any collateral on its loans.

The value of the Group's collateral may be overstated and may decline in the future

There can be no assurance that the Group's loans are collateralized at adequate levels. The Group's collateral may be overvalued and not accurately reflect its liquidation value, which is the maximum amount the Group is likely to recover from a sale of collateral, less expenses of such sale. In addition, some of the valuations in respect of the collateral may be out of date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, it may be worthless. A substantial majority of the Group's secured loans is secured by real estate. Any decline in the value of the collateral securing the Group's loans, including with respect to any future collateral taken by the Group, would mean that its loan loss provisions may be inadequate and require an increase in such provisions. Any increase in the Group's provisions would adversely affect its capital adequacy ratio and otherwise adversely affect its financial condition and results of operations.

The Group has a high exposure to the Philippine property market

The Group has significant exposure to the Philippine property market due to its portfolio of loans to property companies as well as the level of property it holds as collateral. As at 31 December 2007, loans secured by real estate collateral accounted for 54.2% of the Group's total secured loans to customers and loans to customers involved in real estate, renting and business activities accounted for 17.9% of the Group's total loans to customers. As at 31 December 2008, these levels were at 44.6% and 16.3%, respectively. The Philippine property market is highly cyclical, and property prices in general have been volatile. Since 1997, property prices have undergone a significant decline, and transaction volumes in the Philippine property market have also generally declined. Property prices are affected by a number of factors, including, among other things, the supply of and demand for comparable properties, the rate of economic growth in the Philippines and political and economic developments.

Over the past three years, property prices have been on an uptrend, following increased demand for office space by business and knowledge processing firms, increased investments in residential units both by overseas Filipino workers and the resilient middle class, and the construction and expansion of commercial centers spearheaded by local and foreign retail and hotel chains. The Bank continues to take advantage of this prolonged upswing in the property market cycle, exercising prudent, risk-tight lending practices for both corporate and consumer segments.

While the US subprime crisis has had a limited impact to date on Philippine financial institutions, mortgage lending is expected to be negatively impacted in the months ahead. With overseas Filipino workers now more reluctant to commit investments because of the global economic downturn, growth in local real estate loans is expected to slow down although the Bank continues to see strong domestic demand. Likewise, with the US subprime crisis compounded by an inflationary environment, the Bank has become more careful in financing pre-development loans to real estate developers and construction companies. Accordingly, an extended downturn in the Philippine property sector could increase the level of the Group's non-performing loans and related provisions for credit losses, reduce the Group's net income and consequently adversely affect the Group's business, financial condition and results of operations generally.

The Group is also exposed to the property market through its significant holding of property and other real estate which has been acquired following enforcement of its collateral interest under non-performing loans. Over the past three financial years, the level of investment properties of the Group has increased significantly, reflecting the level of non-performing loans during this period. As at 31 December 2007, the Group's investment properties (net) amounted to approximately ₱31.4 billion, representing a decrease of 7.4% from 31 December 2006. As at 31 December 2008, the value of the Group's investment properties (net) of ₱27.4 billion represented 3.6% of the Group's total assets.

While the amount of investment properties appearing on the Group's balance sheet is shown net of allowance for impairment losses and depreciation in value, there can be no assurance that the Group will be able to recover the full estimated value of investment properties stated in its financial statements. Furthermore, given the Group's significant

amount of investment properties, it may take a number of years before the Group is able to realize a significant part of the value of its investment properties. There can therefore be no assurance that the Group will be able to realize the full value of its investment properties. Furthermore, the Group is required by BSP guidelines to recognize annual provisions against investment properties which have been held for a period of five years or more. A provision of 10.0% is required to be made in the sixth year, increasing incrementally to a required provision of 50.0% at the end of the tenth year. As a result of these provisioning requirements, the Group may be required to recognize levels of provisions in future years which are higher than those currently recognized by the Group.

The Group may incur significant losses from its trading and investment activities due to market fluctuations and volatility

The Bank's asset portfolio is comprised primarily of loans to customers and securities held for investment, primarily Philippine Government securities denominated in Pesos. While that proportion of loans and securities held for investment in the Group's asset portfolio has remained relatively stable over the last three years, the Bank generally earns higher earnings on loans than it does from trading and investment securities because earnings from loans are taxed under regular corporate income tax, against which the Bank is able to apply its substantial amounts of net operating loss carryover for previously incurred losses, which amounts can be deducted from taxable income. During periods of high volatility in interest rates and prices of securities, the Bank is able to earn relatively higher earnings from its trading and investment securities, although this may be counter balanced by the Bank's increased risk aversion in the difficult operating environment and the consequent reduction in fixed income and foreign exchange trading business.

The Group's income from these activities is subject to substantial volatility based on, among other things, changes in interest rates, foreign currency exchange rates and debt prices, as well as stock market fluctuations. For example, an increase in interest rates may have a substantial impact on the value of the Group's investments in fixed income securities. Escalating inflationary pressures have prompted the Group, in line with other financial institutions in the Philippines, to shorten the duration of its peso securities inventory to avert potential losses that may arise once interest rates rise. This has resulted in lower peso asset yields on replacement securities. In addition, downgrades of the credit ratings of some of these fixed income securities may negatively affect the Group's results of operations. Furthermore, the adoption of PAS 39 by the Group has resulted in a greater portion of the Group's investment securities being classified from the beginning of 2005 as available-for-sale securities, as opposed to investments in bonds and other debt instruments ("IBODI"), compared to prior years. This shift is expected to result in more volatility in the Group's capital funds as available-for-sale securities are marked-to-market and unrealized gains and losses are reported as a separate component of capital funds. Although the Group does have hedging and trading limits in place to mitigate these risks, there can be no assurance that the Group will not incur substantial investment and trading losses in the future in connection with its investment and trading activities.

The new BSP regulations on DOSRI accommodations may have an adverse impact on the funding requirements of members of the Group

From 9 April 2007, any corporation, association or firm in which the Bank and/or a subsidiary of the Bank holds or owns at least 20.0% of the subscribed capital of such corporation shall be subject to the new BSP regulations on directors, officers, shareholders and/or related interests ("DOSRI") accommodations. The amount of credit accommodation that these corporations can borrow from the Bank shall be limited to the amount of its deposits with the Bank plus the book value of its shares of stock with the Bank. This regulation will have an impact on the funding requirements of MCC and other members of the Group.

The Bank may have to comply with strict regulations and guidelines issued by regulatory authorities in the Philippines, including the BSP and the Philippines Bureau of Internal Revenue (the "BIR") and international bodies, including the Financial Action Task Force (the "FATF")

The Bank is regulated principally by, and has reporting obligations to, the BSP. The Bank is also subject to the banking, corporate, taxation and other laws in effect in the Philippines. The regulatory and legal framework governing the Bank differs in certain material respects from that in effect in other countries and may continue to change as the Philippine economy and commercial and financial markets evolve. In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more transparency in the Philippine banking sector. These rules include new guidelines on the

monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines.

The Parent Company and PSBank received tax assessments from the BIR on industry issues. Management, through its tax counsels, contested these assessments on the ground that the factual situations were not considered, which, if considered, will not give rise to material tax deficiencies.

The Parent Company is involved in four (4) tax cases on the issue of documentary stamp tax ("DST") on special savings accounts. Three (3) of these cases are with the Supreme Court ("SC") and the other one (1) has been resolved with finality at the Court of Tax Appeals ("CTA") *level*.

With respect to the two (2) cases with the SC, the Parent Company filed its manifestations to inform the Court of the existence of a supervening event subsequent to the judgments on appeal which would have a direct effect on the pending cases. The supervening event refers to the availment by the Parent Company of the Tax Amnesty Program under R.A. No. 9480.

In its resolution dated August 29, 2008, the CTA en banc considered the case for the taxable year 2001 closed and terminated subject to the provisions of Republic Act No. 9480, otherwise known as the Tax Amnesty Program of 2007, which the Parent Company availed on September 21, 2007. Said resolution has accordingly been entered in the Book of Entries of Judgments after the CTA en banc promulgated a resolution to this effect on November 4, 2008.

In addition, new taxation regulations that may be issued by the BIR or new taxation legislation on this subject or on any other banking industry practice may have an adverse effect on the Bank. If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could materially and adversely affect its financial condition and results of operations.

The Bank's principal businesses are in the highly competitive Philippine banking industry and increases in competition may result in declining margins in the Bank's principal businesses

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including, in some instances, competitors that have greater financial and other capital resources, greater market share and greater brand name recognition than the Bank. The banking industry in the Philippines is a mature market that has, in recent years, been subject to consolidation and liberalization, including liberalization of foreign ownership regulations. There are currently a total of 38 domestic and foreign commercial banks operating in the Philippines.

In the future, the Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products than the Bank and having larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

- other large Philippine banking and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- foreign banks, due to, among other things, relaxed standards permitting large foreign banks to expand their branch network through acquiring domestic banks;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
- continued consolidation in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

PSBank, the Bank's savings bank subsidiary, faces similar competitive challenges.

There can be no assurance that the Bank and PSBank will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Bank and PSBank to increase the size of their loan portfolios and deposit bases and may cause increased pricing competition, which could have a material adverse effect on their growth plans, margins, ability to pass on increased costs of funding, results of operations and financial condition.

The Bank complies with the capital requirements set by the Basel II standards

On 12 June 2006, the new Basel II standards issued by the BSP in July 2006 were implemented. As applicable, the Monetary Board of the BSP approved major revisions to the country's risk-based capital adequacy framework for implementation on 1 July 2007, to align the existing Basel II-compliant framework with the new Basel II standards, as issued by the Basel Committee on Banking Supervision ("BCBS"), an international committee of banking supervisory authorities.

Basel II standards make regulatory capital requirements more risk sensitive and reflective of all, or at least most, of the risks banks are exposed to. In terms of minimum capital requirements, Basel II standards include the addition of specific capital requirements for credit derivatives, securitization exposures, counterparty risk in the trading book, and operational risk are now required.

As at 31 December 2008, the Bank has complied with the minimum capital requirements set forth by the new Basel II standards.

Increases in oil prices may increase the Group's levels of non-performing loans and provisions for impairment losses and may as a result affect the Group's business, financial condition and results of operations

Despite reducing its dependency on oil imports, the Philippines still remains heavily dependent on such imports. Oil prices have been very volatile in recent months trading within a wide range going as high as $146 per barrel on 3 July 2008 to as low as $33 on 15 January 2009. Many commodity analysts have noted that the low prices of oil might not be sustained in the future as the global economy starts to pick-up and as the collective efforts of the oil-producing countries' actions take effect. Increasing global oil prices may (i) increase the cost of production of goods and services in the economy, therefore putting downward pressure on profit margins; (ii) impact on price level and on inflation; and (iii) affect equity and bond valuations and currency exchange rates.

Increasing oil prices may adversely affect the Group's existing and new borrowers, in particular borrowers whose operations are sensitive to high oil prices and/or power rates. The ability of the Group's existing borrowers to continue to meet their obligations under their indebtedness may be adversely affected and, as a result, the Group may continue to experience significant levels of non-performing loans and significant provisions for impairment losses. Any significant increase in or a continued high level of the Group's non-performing loans or provisions for impairment losses would have a material adverse effect on its financial condition, capital adequacy and results of operations. In addition, increases in oil price may also make it difficult for the Bank and PSBank to increase the size of their loan portfolios and deposit bases or maintain their margins and these factors may have a material adverse effect on their growth plans, margins, results of operations and financial condition.

The results of operations of certain of the Group's businesses may vary significantly from time to time

As a result of (i) the significant acquisitions the Group has made over the past three financial years, (ii) the varying levels of provisions it has made in respect of non-performing loans, investment properties, pension liabilities, impairment in the value of investments and other developments, and (iii) the varying gains recognized by the Group as a result of its trading of Philippine Government treasury securities, the Group's results of operations have varied from period to period in the past and may fluctuate significantly in the future due to these and other factors. For instance, in the year ended 31 December 2008, the Group recorded net trading and securities loss equal to ₱1.3 billion, compared to ₱7.6 billion net trading and securities gain in the year ended 31 December 2007.

Furthermore, in the year ended 31 December 2008, with respect to the Group's equity investments in associated companies, the Group recognized an impairment in value of ₱4.7 million, reflecting a decline in the value of certain shareholdings held by the Group at that date.

The Group's results of operations may be adversely affected by a revaluation of the unfunded liability in relation to the Group's retirement plans

The retirement funds operated by the Bank and certain of its subsidiaries are funded non-contributory retirement plans covering all their permanent and full-term officers and employees. As at 31 December 2008, the fair value of the retirement plan assets of the Group amounted to ₱4.6 billion. As at 31 December 2008, the Group had a net retirement

liability of ₱1.4 million, which is amortized by the Group over the estimated average remaining working lives of participating employees. The Group's retirement expenses associated with these plans amounted to ₱359.2 million in 2006, ₱711.7 million in 2007, and ₱1.0 billion in 2008. In addition to the Group's net retirement liability under its retirement plan, certain subsidiaries of the Bank had unfunded liabilities amounting to an aggregate of ₱235.3 million as at 31 December 2008.

As at 1 January 2009, the principal actuarial assumptions used by the Bank and its subsidiaries to determine retirement benefits include an expected rate of return on assets ranging from 6.0% to 10.0% and a salary increase of 7.0% to 10.0% per annum, compounded annually. If these assumptions prove to be incorrect, the Bank's and its subsidiaries' funding obligations in respect of their retirement plans may be significantly higher. If the Bank or any of its subsidiaries reassesses the unfunded actuarial liability in relation to the Group's retirement plan in the future, this revaluation may require the Bank and/or such subsidiary to increase the amount it amortizes each year in respect of its retirement fund liabilities, which would adversely affect the Group's net income. See Note 26 to the Audited Consolidated Financial Statements.

The Bank and its subsidiaries have experienced some incidents of fraud

The Bank and its subsidiaries, in particular, PSBank, have experienced incidents of employees engaging in fraudulent activities, such as misappropriation of cash and fraudulently transferring or withdrawing customer funds. However, changes have been instituted to address similar cases in the future. In particular for PSBank, these changes include the creation of specialized units like the Centralized Branch Review & Control Department for the centralized review of branch transactions, the Process Management Division for the formulation of policies & procedures, and the implementation of various systems like the Checks & Documents Review System, the Automated Signature Verification System, the Secured Inventory Management System, the Audit Confirmation System, and the Exception Management System, and others. The Bank, PSBank and the Bank's other subsidiaries are consistent in closely monitoring strict adherence to their internal control procedures to prevent future fraudulent actions.

The Group seeks to protect its information technology systems and network infrastructure from physical break-ins and fraud. Computer break-ins may affect the security of information stored in, and transmitted through, the Group's computer systems and network infrastructure. As the Group continues to further automate and computerize and expand its internet banking operations, the Group mitigates the increased information security risks thru implementation of cryptography, firewalls, intrusion protection systems, multi-factor authentication mechanisms and regular vulnerability assessments.

A downgrade of the Bank's credit rating could have a negative effect on its financial condition and results of operations

In the event of a downgrade of the Bank by one or more credit rating agencies, the Bank may have to accept terms that are not as favorable in its transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions. This could have a negative impact on the Bank's treasury operations and otherwise adversely affect its financial condition and results of operations.

The Bank is effectively controlled by one shareholder

The Bank is effectively controlled by one shareholder, Dr. George S.K. Ty, and associated parties. As at 31 December 2008, Dr. Ty controlled 54.2% of the outstanding shares directly and indirectly through his family and relatives, including, among others, Mary V. Ty, Arthur V. Ty, Alfred V. Ty, Anjanette Ty Dy-Buncio and Margaret Ty and their associated companies, voting trusts and other trust accounts, including, among others, Federal Homes, Inc., Philippine Securities Corporation and Tytana Corporation. The remainder of the outstanding Shares are held by the public. See "Management, Employees and Shareholders - Principal Shareholders". Dr. Ty has significant influence over the outcome of all matters to be decided by the Bank's shareholders including the composition of its Board of Directors.

The Group must hire and retain qualified employees to succeed in implementing its business strategy.

The Group requires employees with specialized training and experience in areas such as real estate, investment banking, trust banking and accounting. In addition, in order to maintain and enhance its information technology systems, the Group requires highly skilled technical personnel. The Group faces significant competition for these skilled workers. Notwithstanding the challenges in the employee workforce insofar as attracting and retaining qualified personnel is

concerned, the Group continues to be one of the strongest recruiters of local talent that is appropriate for its current needs.

CONSIDERATIONS RELATING TO THE SERIES 2 NOTES

Subordination of the Series 2 Notes; limited right to accelerate

The Series 2 Notes will constitute direct, unsecured and subordinated obligations of the Bank ranking *pari passu* without any preference among themselves. In the event of a winding-up of the Bank, the claims of Noteholders will be subordinated in right of payment to the prior payment in full of all liabilities (whether actual or contingent, present or future) of the Bank (including all deposit liabilities and other liabilities of the Bank and all offices and branches of the Bank), except those liabilities which by their terms rank equal with or junior to the Series 2 Notes. In particular, the Series 2 Notes will rank equally with the ₱8,500,000,000 and ₱5,500,000,000 Subordinated Notes due 2017 and 2018 issued by the Bank in October 2007 and October 2008 respectively. The Series 2 Notes are not deposits and are not guaranteed nor insured by the Bank or any party related to the Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation, or any other person.

As a consequence of these subordination provisions, in the event of a winding-up of the Bank, the holders of the Series 2 Notes may recover less rateably than the holders of deposit liabilities or the holders of other unsubordinated liabilities of the Bank. The rights of the Noteholders will also be effectively subordinated to the rights of holders of all liabilities, including deposit liabilities, of the Bank's subsidiaries. As at 31 December 2008, the Bank had outstanding liabilities (including deposit liabilities) ranking senior to the Bank's obligations under the Series 2 Notes in an aggregate principal amount of ₱663.8 billion. The Series 2 Notes and the Trust Agreement do not limit the amount of the liabilities ranking senior to the Series 2 Notes which may be hereafter incurred or assumed by the Bank.

The rights of the Noteholders are limited in certain respects. If the Bank fails to make a payment on the Series 2 Notes when due, the holders thereof may not accelerate payment of such Series 2 Notes, but may institute proceedings to enforce the obligations of the Bank to make such payment and may institute proceedings in the Philippines (but not elsewhere) for the winding up of the Bank. The Noteholders may accelerate the Series 2 Notes only if a winding up proceeding is commenced or upon the occurrence of certain other related events. See "Terms and Conditions of the Series 2 Notes" for further details.

Limitation as to Use as Collateral

The Series 2 Notes may not be used as collateral for any loan made by the Bank or any of its subsidiaries or affiliates. The Noteholders are not allowed to set off any amount that may be due to the Bank against the Series 2 Notes.

Rating of the Series 2 Notes

The Series 2 Notes have been rated Baa3 by Moody's Investors Service. This rating will relate to the timely payment of interest on the Series 2 Notes and the full payment of principal of the Series 2 Notes on or before its Maturity Date. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

Liquidity for the Series 2 Notes

Noteholders may not redeem or pre-terminate the Series 2 Notes before Maturity Date. Noteholders may, however, negotiate or transfer the Series 2 Notes to purchasers who are not Prohibited Holders. In accordance with Clause D(7)(e) of BSP Memorandum to All Banks and Non-Bank Financial Institutions dated 17 February 2003, as amended, negotiations/transfers from one Noteholder to another do not constitute pre-termination. Any change in the interpretation of current tax laws subjecting the Series 2 Notes to deductions or withholdings of whatever nature shall, however, be for the account of the Noteholder.

The liquidity for the Series 2 Notes will depend in part upon the activity of market makers in developing a trading market for the Series 2 Notes. The Joint Lead Arrangers currently intend to make a market in the Series 2 Notes, but they are not obligated to do so and no assurance can be given that they will actually do so, or if they do, that they will continue to make a market in the future. The Bank has set forth its plans to list the Series 2 Notes on the PDEx. In the event of such

listing of the Series 2 Notes in the PDEx, the services of the Market Maker as such will cease and secondary trading of the Series 2 Notes, including a limited form of market making thereon, would be conducted on the PDEx (through its trading participants) in accordance with the rules and regulations, including but not limited to guidelines on minimum trading lot and record dates, and subject to such fees of, PDEx and other providers necessary for the completion of such trades. There can be no assurance that the Series 2 Notes will be listed or continue to be listed on the PDEx or on any other exchange. No assurance can be given that an active trading market for the Series 2 Notes will develop.

Transfers only through Market Maker

While the Series 2 Notes are not yet listed in the PDEx, all transfers of the Series 2 Notes must be made through a Market Maker. Consequently, the parties to a transfer may be subject to the guidelines of the relevant Market Maker and the payment to the relevant Market Maker and the Registrar of any reasonable fees. There is no assurance that the secondary trading of the Series 2 Notes may not be affected given these restrictions.

The Bank intends to list the Series 2 Notes in PDEx for secondary market trading. Upon listing of the Series 2 Notes with PDEx, investors must course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. These Settlement Rules and Guidelines include guidelines on minimum trading lots and record dates. The secondary trading of Series 2 Notes in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. The PDEx rules and conventions are available in the PDEx website (www.pdex.com.ph). An investor Frequently Asked Questions ("FAQ") discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

As with other fixed income securities, the Series 2 Notes trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Bank's operations, and the overall market for debt securities, among others. It is possible that a selling Noteholder would receive sales proceeds lower than his initial investment should a Noteholder decide to sell his Series 2 Notes prior to maturity.

Taxation of the Series 2 Notes

If, because of new or changes in the interpretations or conventions regarding current taxes, such that any payments of principal and/or interest under the Series 2 Notes shall be subject to deductions or withholdings for or on account of any present taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the "Taxes"), then such Taxes shall be for the account of the Noteholder concerned, and if the Issuer shall be required by law or regulation to deduct or withhold such Taxes, then the Issuer shall make the necessary withholding or deduction for the account of the Noteholder concerned; provided, however, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant Noteholder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar.

TERMS AND CONDITIONS OF THE SERIES 2 NOTES

Total Amount	₱4,500,000,000 Billion.
Denomination	Minimum of ₱500,000.00 per Note, and increments of ₱100,000.00 beyond the minimum.
Governing Regulation	Bangko Sentral ng Pilipinas (*BSP*) Memorandum to All Banks and Non-Bank Financial Institutions dated 17 February 2003 and Circular Nos. 280 (2001) and 503 (2005) on the issuance of unsecured subordinated debt instruments eligible as Tier 2 capital and other related circulars and issuances, as may be amended from time to time (the *BSP Rules*).
Issue Price	100% of the face value of each Note.
Issue Date	6 May 2009.
Settlement Date	Issue Date.
Use of Proceeds	To raise additional Tier 2 capital for the Issuer and to increase and strengthen its capital base.
Interest	The face value of the Note multiplied by the Initial Interest Rate (or Step-Up Interest Rate) calculated on the basis of a three hundred and sixty (360)-day year consisting of twelve (12) months of thirty (30) days each month.
Initial Interest Rate	7.5% *per annum*, payable to the Noteholder for the period from and including the Issue Date up to, but excluding, the last day of the twentieth (20th) Interest Period (if the Call Option is not exercised) or up to, but excluding, the Call Option Date (if the Call Option is exercised).
Interest Periods	Consecutive three (3) calendar month periods reckoned from the Issue Date up to the numerically same day of the third (3rd) month from Issue Date, and every succeeding three (3) calendar month periods beginning on the last day of the prior period up to the numerically same day of every third (3rd) month thereafter, until the Maturity Date.
Interest Payment Date	The last day of an Interest Period, subject to the Modified Business Day Convention, except for the last Interest Payment Date which shall fall on the Maturity Date. For the avoidance of doubt, the term ***Modified Business Day Convention*** means a business or banking day convention whereby payment days that fall on a holiday or weekend roll forward to the next Banking Day, unless that day falls in the next calendar month, in which case the payment day rolls backward to the immediately preceding Banking Day.
Step-Up Interest Rate	(Benchmark as of Reset Date x 80%) plus the Step-Up Spread, payable to the Noteholders in lieu of the Initial Interest Rate beginning on the twenty-first (21st) Interest Period up to the last Interest Period in the event that the Issuer does not exercise the Call Option.

Step-Up Spread	150% x {Initial Interest Rate - (Initial Benchmark x 80%)}, which is equivalent to 3.5310%.
Reset Date	The first day of the twenty-first (21st) Interest Period.
Initial Benchmark	The prevailing five (5)-year Fixed Rate Treasury Notes (*FXTNs*) as published on the PDST-F section of the Philippine Dealing and Exchange Corp (*PDEx*) Market Page under the heading "Bid Yield" as of 11:16 a.m., Manila time (or its successor benchmark rate) on the date to be mutually agreed upon between the Issuer and the Joint Lead Arrangers (the *Interest Setting Date*).
Benchmark as of Reset Date	The five (5)-year FXTNs as published on the PDST-F section of the PDEx Market Page under the heading "Bid Yield" as of 11:16 a.m., Manila time(or its successor benchmark rate) on the Banking Day immediately prior to the Reset Date. If there is no rate appearing on the PDEx Page under the heading ''Bid Yield'' as of 11:16 am, Manila time, on the Banking Day immediately prior to the Reset Date, the Public Trustee will request appropriate quotes for bid yields for a five (5)-Year FXTN from four reference banks (which shall be selected by the Public Trustee) and will determine the arithmetic mean of these bid yields (rounded upwards, if necessary, to the nearest one-sixteenth of one per cent) provided that at least three rates are so quoted.
Payment	Any payment of principal or interest under the Series 2 Notes shall be made to the Noteholders through the Paying Agent based solely on the records of the Registrar.
Call Option	On the Call Option Date, upon (x) prior approval of the BSP subject to the following conditions: (i) the capital adequacy ratio of the Issuer is at least equal to the required minimum ratio; (ii) the Note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the original issue; and (y) thirty (30)-Banking Day prior written notice to the Noteholders on record, all and not less than all of the outstanding Series 2 Notes may be redeemed at the instance of the Issuer by paying the Noteholders the face value of the Note plus accrued interest at the Initial Interest Rate.
Call Option Date	The day when the Call Option is exercised and paid by the Issuer which day shall be the first Banking Day after the twentieth (20th) Interest Period.
Call Option Amount	The face value of the Note, plus accrued Interest covering the twentieth (20th) Interest Period up to, but excluding, the Call Option Date, at the Initial Interest Rate. Upon the exercise of the Call Option, the tax due, if any, on the interest income already earned by the Noteholders shall be for the account of and shall be paid by the Issuer to the Noteholders concerned.
Maturity Date	The last day of the fortieth (40th) Interest Period from Issue Date, which is on 6 May 2019.
Maturity Value	The Series 2 Notes will be redeemed on Maturity Date at their Issue Price plus unpaid accrued applicable Interest.

Non-Preterminability	The Series 2 Notes shall not be redeemable or terminable at the instance of any Noteholder before Maturity Date, unless otherwise expressly provided herein.
Redemption other than Call Option	At any time within the first five years from Issue Date of the Series 2 Notes, upon (a) a change in tax status of the Series 2 Notes due to changes in tax laws and/or regulations, or (b) the non-qualification of the Series 2 Notes as Lower Tier 2 capital as determined by the BSP, the Issuer may, upon prior approval of the BSP and at least a thirty (30)-Banking Day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Series 2 Notes prior to the stated maturity by paying the Noteholder the face value of the Note plus accrued interest at the Interest Rate. All payments of principal and interest in respect of the Series 2 Notes as a result of such redemption under this paragraph shall be made free and clear of, and without withholding or deduction for, any Taxes (as defined below), unless such withholding or deduction is required by law. In that event, the Issuer shall pay to the Noteholders concerned such additional amount as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction for Taxes been required.
Form	The Series 2 Notes will be issued scripless and will be maintained in electronic form with the Registrar, subject to the payment of fees to the Registrar, and in compliance with the provisions of Rep. Act No. 8792, otherwise known as the Electronic Commerce Act, particularly on the existence of an assurance on the integrity, reliability, and authenticity of the Series 2 Notes in electronic form. A Registry Confirmation, however, will be issued by the Registrar in favor of the Noteholders in accordance with the BSP Rules.
Registrar & Paying Agent	Philippine Depository & Trust Corp.
Public Trustee	Development Bank of the Philippines - Trust Services
Selling Agents	ING Bank N.V., Manila Branch Standard Chartered Bank, Manila Branch Multinational Investment Bancorporation PNB Capital and Investments Corporation
Limited Selling Agents	Metropolitan Bank & Trust Company and First Metro Investment Corporation whose combined distribution amount will not exceed 50% of the total issue size in accordance with BSP Rules
Market Makers	Initially, ING Bank N.V., Manila Branch, Standard Chartered Bank, Manila Branch, and Multinational Investment Bancorporation and thereafter, the institution appointed by the Issuer to perform the role of market maker required under the relevant BSP Rules, and may refer, when the circumstances warrant, to PDEx.
Noteholders	The Series 2 Notes may only be issued or transferred to such persons as may be allowed under the relevant provisions of the BSP Rules. Only Noteholders shall be entitled to Registry Confirmations and to be registered as such in the Registry.

Prohibited Noteholders

The following persons and entities shall be prohibited from purchasing and/or holding any Series 2 Notes of the Issuer: (1) subsidiaries and affiliates of the Issuer, including the subsidiaries and affiliates of the Issuer's subsidiaries and affiliates; or (2) unit investment trust funds managed by the Trust Department of the Issuer, its subsidiaries, and affiliates, or other related entities; or (3) other funds being managed by the Trust Department of the Issuer, its subsidiaries and affiliates or other related entities where (a) the fund owners have not given prior authority or instruction to the Trust Department to purchase or invest in the Series 2 Notes or (b) the authority or instruction of the fund owner and his understanding of the risk involved in purchasing or investing in the Series 2 Notes are not fully documented. For purposes hereof, an "affiliate" refers to a related entity linked by means of ownership of at least 20% to not more than 50% of its outstanding voting stock.

Secondary Trading

All secondary trading of the Series 2 Notes shall be coursed through a Market Maker or effected using the trading facilities of PDEx, as applicable, subject to the payment by the Noteholder of fees to the Market Maker or payment of applicable fees in connection with trading on PDEx, and the Registrar. Any transfer between investors of different tax status with respect to the Issue shall only be effective on an Interest Payment Date. Transfers shall be subject to the procedures of the Registrar and PDEx, including but not limited to guidelines on minimum trading lots and record dates.

The Bank intends to list the Series 2 Notes in PDEx for secondary market trading. Upon listing of the Series 2 Notes with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The secondary trading of Series 2 Notes in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades.

Transferability

Negotiations or transfers of the Series 2 Notes to one other than the Issuer prior to Maturity Date shall not constitute pre-termination.

Qualification Determination

Each Selling Agent and Limited Selling Agent (in the case of initial issuance of the Series 2 Notes) and each Market Maker (in the case of secondary trading of the Series 2 Notes) shall verify the identity and other relevant details of each investor and ascertain that the proposed holder or transferee of a Note is not a Prohibited Noteholder. In the event that the Series 2 Notes are listed on PDEx, the obligation to verify the identity and other relevant details of each investor and ascertain that the proposed holder or transferee of a Note is not a Prohibited Noteholder shall be performed by the trading participants of the PDEx. Final determination shall, however, rest with the Issuer.

The Noteholder shall immediately submit any and all information reasonably required by the Selling Agents, Limited Selling Agents, and/or Market Makers with

respect to the qualification of the proposed holder or transferee in order to determine that such Noteholder or transferee is not a Prohibited Noteholder.

Status and Subordination

The Series 2 Notes will constitute direct, unconditional, unsecured, and subordinated obligations of the Issuer. Claims of all the Noteholders in respect of the Series 2 Notes will at all times rank *pari passu* without any preference among themselves.

However, claims of all Noteholders will enjoy priority over the rights and claims of holders of all classes of equity securities of the Issuer, including holders of preference shares, if any. Noteholders or their transferees shall not be allowed, and hereby waive their right, to set off any amount that may be due the Issuer.

Upon any distribution to creditors of any assets of the Issuer in the event of any insolvency or liquidation of the Issuer, the claims of Noteholders for principal and interest in respect of the Series 2 Notes shall be subordinated in right of payment to claims (whether actual or contingent, present or future) of all depositors and creditors of the Issuer, except those creditors that are expressly ranked equally with or junior to the Noteholders in right of payment.

THE SERIES 2 NOTES, LIKE OTHER SUBORDINATED INDEBTEDNESS OF THE ISSUER, ARE SUBORDINATED TO THE CLAIMS OF DEPOSITORS AND ORDINARY CREDITORS, ARE NOT DEPOSITS, AND ARE NOT GUARANTEED NOR INSURED BY THE ISSUER OR ANY PARTY RELATED TO THE ISSUER, SUCH AS ITS SUBSIDIARIES AND AFFILIATES, OR THE PHILIPPINE DEPOSIT INSURANCE CORPORATION, OR ANY OTHER PERSON. THE SERIES 2 NOTES AND ARE NOT COVERED OR SECURED BY ANY OTHER ARRANGEMENT THAT LEGALLY OR ECONOMICALLY ENHANCES THE PRIORITY OF THE CLAIM OF ANY NOTEHOLDER AS AGAINST DEPOSITORS AND OTHER CREDITORS OF THE ISSUER.

The Series 2 Notes shall not be used as collateral for any loan made by the Issuer or any of its subsidiaries or affiliates.

Representations and Warranties

The Issuer hereby represents and warrants to the Noteholders, as follows:

(a) The Issuer is a corporation duly organized, validly existing, and in good standing under and by virtue of the laws of the Republic of the Philippines, is registered or qualified to do business in every jurisdiction where registration or qualification is necessary, and has the corporate power and authority to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business;

(b) All corporate authorizations, approvals, and other acts legally necessary for the offer and issuance of the Series 2 Notes, for the circulation of the Preliminary

and Final Offering Circulars, and for the Issuer to enter into and comply with its obligations under the Series 2 Notes, have been obtained or effected;

(c) All government authorizations, approvals, rulings, registrations, and other acts legally necessary for the offer, issuance, and payment of the Series 2 Notes, their respective terms, as may be amended or supplemented, and for the Issuer to enter into and comply with its obligations under the Series 2 Notes, have been obtained and remain valid;

(d) All conditions imposed or required under the BSP Rules, as well as regulations of the Bureau of Internal Revenue and other relevant agencies, in respect of the offer, issuance, and payment of the Series 2 Notes, have been or will be complied with by the Issuer as of the date and/or time that they are required to be complied with;

(e) None of the information, data, or submissions made by the Issuer, including those made available to the Noteholders, in connection with the Series 2 Notes violate any statute or any rule or regulation of any government agency or office, nor do they contain any untrue or misleading statement of a material fact, nor omit any material fact necessary or required to be stated;

(f) The obligations of the Issuer under the Series 2 Notes constitute the Issuer's legal, valid, binding, direct, and unconditional obligations, enforceable in accordance with their terms, and the compliance by the Issuer with its obligations under the Series 2 Notes will not conflict with, nor constitute a breach or default of, the articles of incorporation, by-laws, or any resolution of the board of directors or any committee of the Issuer, or any rights of the stockholders of the Issuer, or any contract or other instrument by which the Issuer is bound, or any law, regulation, or judgment or order of any office, agency, or instrumentality applicable to the Issuer;

(g) The Issuer is compliant with all Philippine laws, statutes, regulations, and circulars, including without limitation the circulars, rules, regulations, and orders issued by the BSP;

(h) The Issuer has all authorizations, approvals, permits, licenses, and privileges from all governmental and regulatory bodies necessary to carry on its banking business and operations as well as those of its subsidiaries and affiliates as currently conducted; has not violated any of the terms and conditions of such authorizations, approvals, permits, and licenses; and will have free and continued use and exercise thereof;

(i) The Issuer has complied with, addressed, and successfully and effectively implemented, to the satisfaction of the BSP, all findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Issuer;

(j) There are no legal, administrative, or arbitration actions, suits, or proceedings pending or threatened against or affecting the Issuer which, if adversely determined, would have a material adverse effect on the business operations, properties, assets, or financial conditions of the Issuer, or which enjoin

or otherwise adversely affect the execution, delivery, or performance of the Series 2 Notes, or its offer or issuance;

(k) The audited consolidated financial statements of the Issuer are in accordance with the books and records of the Issuer, are complete and correct in all material respects, have been prepared in accordance with Philippine Financial Reporting Standards, and fairly represent the Issuer's consolidated financial condition and results of operations. There has been no material change in the financial condition or results of operations of the Issuer sufficient to impair its ability to perform its obligations under the Series 2 Notes according to their terms;

(l) The Issuer has, as of the date hereof, no liabilities or obligations of any nature, whether accrued, absolute, contingent, or otherwise, including but not limited to tax liabilities due or to become due, and whether incurred in respect of or measured by any income for any period prior to such date or arising out of transactions entered into or any state of facts existing prior thereto, which may in any case or in the aggregate, materially and adversely affect the Issuer's ability to discharge its obligations under the Series 2 Notes;

(m) Since the issuance of the various approvals by the relevant government agencies for the offer or issuance of the Series 2 Notes, there has been no change in the financial condition, assets, and liabilities of the Issuer, other than changes that do not, either in any case or in the aggregate, materially and adversely affect the Issuer's ability to discharge its obligations under the Series 2 Notes;

(n) No event has occurred and is continuing which constitutes a default by the Issuer under or in respect of any agreement binding upon the Issuer, and no event has occurred which, with the giving of notice, lapse of time, or other condition, would constitute a default by the Issuer under or in respect of such agreement, which default shall materially affect the Issuer's ability to comply with the Series 2 Notes and pay the principal and interest that may be due on the Series 2 Notes;

(o) The Issuer has good and marketable title to all its properties, free and clear of liens, encumbrances, restrictions, pledges, mortgages, security interest, or charges;

(p) The Issuer is conducting its business and operations in compliance with the applicable laws and regulations, has filed true, complete, and timely tax returns, and has paid all taxes due in respect of the ownership of its properties and assets or the conduct of its operations, except to the extent that the payment of such taxes is being contested in good faith and by appropriate proceedings;

(q) The Issuer maintains insurance with responsible and reputable insurance companies in such amounts, covering such risks, and under such terms and conditions, as are prudent and appropriate and as are usually carried by companies engaged in similar business and owning similar properties in the same geographical areas as those in which the Issuer operates;

(r) The Issuer maintains the services of a responsible and reputable external auditor;

(s) The offering circulars issued in connection with the Series 2 Notes presents a fair, complete, and accurate description of the Issuer, the Series 2 Notes, and the considerations that any investor in the Series 2 Notes needs to know before making an informed decision to invest in the Series 2 Notes; and

(t) The agreements of the Issuer with the Joint Lead Arrangers, Registrar, Selling Agents, Market Makers, and Public Trustee comply with the provisions of Sec. X169 of the Manual of Regulations for Banks on bank service contracts.

These representations and warranties are true and correct as of the Issue Date and shall remain true and correct as long as the Series 2 Notes or any part thereof remain outstanding.

Covenants

Affirmative Covenants

The Issuer hereby covenants and agrees that, for as long as the Series 2 Notes remain outstanding:

(a) The Issuer shall pay and discharge all taxes, assessments, and government charges or levies imposed upon it or upon its income or profits or upon any properties belonging to it prior to the date on which penalties are assessed; pay and discharge when due all lawful claims which, if unpaid, might become a lien or charge upon any of its properties; and take such steps as may be necessary in order to prevent its properties from being subjected to the possibilities of loss, forfeiture, or sale; *provided*, that the Issuer shall not be required to pay any such tax, assessment, charge, levy, or claim which is being contested by it in good faith and by proper proceedings or as could not reasonably be expected to have a material adverse effect on its condition, business, or properties; *provided*, that in the case of a tax, assessment, charge, levy, or claim which is being contested in good faith and by proper proceedings, the Public Trustee shall be notified by the Issuer within thirty (30) days from the date of the receipt of written notice of any preliminary or final resolution of such proceedings;

(b) The Issuer shall preserve and maintain its corporate existence;

(c) The Issuer shall maintain adequate financial records and prepare all financial statements in accordance with Philippine Financial Reporting Standards consistently applied and in compliance with the regulations of the government body having jurisdiction over it, and, subject to receipt of a written request within a reasonable period before the proposed date of inspection, permit the Public Trustee or its duly designated representatives to inspect the books of accounts and records pertinent to the compliance by the Issuer of its obligations under the Series 2 Notes;

(d) The Issuer shall comply with all the requirements, terms, covenants, conditions, and provisions of all laws, rules, regulations, orders, writs, judgments, indentures, mortgages, deeds of trust, agreements, and other instruments, arrangements, obligations, and duties to which it, its business, or its assets are legally bound, where non-compliance would have a material adverse effect on the business, assets, condition, or operations of the Issuer, or would materially and adversely affect the Issuer's ability to duly perform and observe its obligations and duties under the Series 2 Notes;

(e) The Issuer shall fully and promptly comply with all BSP directives, orders, issuances, and letters, including those regarding its capital, licenses, risk management, and operations; promptly and satisfactorily take all corrective measures that may be required under BSP audit reports; and promptly furnish the Public Trustee with a copy of all the audit reports of, and its submissions to, the BSP;

(f) The Issuer shall use the net proceeds from the Series 2 Notes to raise additional Lower Tier 2 capital and to increase and strengthen its capital base;

(g) The Issuer shall pay promptly and satisfactorily all indebtedness and other liabilities and perform all contractual obligations pursuant to all agreements to which it is a party or by which it or any of its properties may be bound, except those being contested in good faith and by proper proceedings or as could not reasonably be regarded to have a material adverse effect on its business, assets, condition, or operations;

(h) The Issuer shall pay all amounts due under the Series 2 Notes at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the Series 2 Notes;

(i) The Issuer shall**,** as soon as available and in any event within one hundred and twenty (120) days after the end of each fiscal year of the Issuer, or at such later date on which it makes such information publicly available, likewise make available to the Noteholders through the Public Trustee with audited consolidated financial statements, consisting of the balance sheet of the Issuer as of the end of such fiscal year and statements of income and retained earnings and of the source and application of funds of the Issuer for such fiscal year, such audited consolidated financial statements being prepared in accordance with Philippine Financial Reporting Standards consistently applied and being certified by an independent certified public accountant of recognized standing in the Philippines; and shall make available to the Public Trustee no later than forty-five (45) days from the end of each calendar quarter with its quarterly unaudited consolidated financial statements; and shall further furnish the Public Trustee within ten (10) days from written request with such updates and information as may be reasonably requested by the Public Trustee pertaining to the business, assets, condition, or operations of the Issuer, or affecting the Issuer's ability to duly perform and observe its obligations and duties under the Series 2 Notes;

(j) The Issuer shall give to the Noteholders through the Public Trustee written notice of (i) all assessments, litigation, or administrative or arbitration proceedings before or of any court, tribunal, arbitrator, or governmental or municipal authority affecting the Issuer or any of its assets regarding any claim in excess of ₱500,000,000.00 or its equivalent in any currency, (ii) any labor controversy resulting or threatening to result in any action against the Issuer that may materially and adversely affect its operations or may result in a strike against it, (iii) any Event of Default or any event, which, upon a lapse of time or giving of notice or both, would become an Event of Default, (iii) any damage or destruction or loss which might materially and adversely affect its assets, business or financial conditions or, (v) any other matter or conditions affecting the Issuer which might have a material

adverse effect on the business, assets, condition, or operations of the Issuer, or which might materially and adversely affect the Issuer's ability to duly perform and observe its obligations and duties under the Series 2 Notes, immediately upon becoming aware that the same is pending or has been commenced or has occurred;

(k) The Issuer shall, when so requested in writing, provide any and all information reasonably needed by the Public Trustee to enable it to comply with its responsibilities and duties under the BSP Rules, the Series 2 Notes, and the Trust Agreement; *provided*, that, in the event that the Issuer cannot, for any reason, provide the required information, the Issuer shall so immediately advise the Public Trustee;

(l) The Issuer shall promptly advise the Noteholders through the Public Trustee: (i) of any request by any government agency for any information related to the Series 2 Notes, and (ii) of the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the Series 2 Notes or the initiation of any proceedings for any such purpose*; provided*, that no amendments or supplements to any selling materials, offering circulars, or other documents pertaining to the offer of the Series 2 Notes have been or will be made without the prior written notice to, and without the approval of, the Public Trustee;

(m) The Issuer shall obtain at its sole expense the withdrawal of any order suspending the transactions with respect to the Series 2 Notes at the earliest time possible;

(n) The Issuer shall ensure that any documents related to the Series 2 Notes will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;

(o) The Issuer shall promptly execute and deliver to the Noteholders through the Public Trustee such reports, documents, and other information respecting the business, properties, condition, or operations, financial or otherwise, of the Issuer as the Public Trustee may from time to time reasonably require;

(p) The Issuer shall, as soon as possible and in any event within five (5) days after the occurrence of any default on any of the obligations of the Issuer, or other event which, with the giving of any notice and/or with the lapse of time, would constitute a default under the agreements of the Issuer with any party, serve a written notice to the Noteholders through the Public Trustee of the occurrence of any such default, specifying the details and the steps which the Issuer is taking or proposes to take for the purpose of curing such default, including the Issuer's estimate of the length of time to correct the same;

(q) The Issuer shall make available to the Public Trustee financial and other information regarding the Issuer by filing with the Securities and Exchange Commission (the ***SEC***) and/or the Philippine Stock Exchange (the ***PSE***), at the time required or within any allowed extension, the reports required by the SEC and or PSE, as the case may be, from listed companies in particular and from corporations in general; and

(r) The Issuer shall maintain the services of its current external auditor and in any event where the current external auditor of the Issuer shall cease to be the external auditor for any reason, the Issuer shall appoint another reputable, responsible and internationally-accredited auditor.

Negative Covenants

The Issuer hereby covenants and agrees that for as long as the Series 2 Notes remain outstanding, the Issuer shall not:

(a) Permit any indebtedness, which shall be or purport to be subordinated obligations of the Issuer or which shall be considered capital of the Issuer for any regulatory purposes, to be secured by or to benefit from any lien in favor of any creditor or class of creditors with respect to any present or future property or the right of the Issuer to receive income, provided that the term "lien" as used in this paragraph shall not include the following: (i) liens, pledges, mortgages, or encumbrances in existence on the date hereof; and (ii) liens imposed by law and liens arising in the ordinary course of business;

(b) Permit any creditor with indebtedness which shall be or purport to be subordinated obligations of the Issuer or which shall be considered capital of the Issuer for any regulatory purposes, to receive any priority or preference arising under Article 2244(14) of the Civil Code of the Philippines over the claims of the Noteholders hereunder, which claims shall at all times rank *pari passu* in all respects with all other unsecured subordinated obligations of the Issuer covered thereunder;

(c) Engage in any business except that authorized by its Articles of Incorporation;

(d) Except with the consent of the Majority Noteholders, or if the Issuer is the surviving entity and provided that such event will have no material adverse effect on the financial condition of the Issuer, effect any merger, consolidation, or other material change in its ownership, corporate set-up or management or character of business;

(e) Sell, transfer, convey, lend, or otherwise dispose of all or substantially all of its assets;

(f) Except as may be allowed under existing Issuer policies and practices pursuant to benefits, compensation, reimbursements, and allowances and BSP rules and regulations, extend any loan or advances to its directors and officers;

(g) Assign, transfer, or otherwise convey or encumber any right to receive any of its income or revenues unless in its ordinary course of business;

(h) Declare or pay any dividends (other than stock dividends) during an Event of Default or if declaration or payment of such dividends would result to an Event of Default;

(i) Voluntarily suspend all or substantially all of its business operations;

(j) Grant, in any of its future loan or credit agreements, any creditor any right, above and beyond what is required under Philippine law, to apply amounts on deposit with or in possession of any such creditor by way of set-off in reduction of any amount owing under any loan or credit agreements;

(k) Enter into any management contracts, profit-sharing, or any similar contracts or arrangements whereby its business or operations are managed by, or its income or profits are, or might be shared with, another person, firm or company, which management contracts, profit-sharing or any similar contracts or arrangements will materially and adversely affect the Issuer's ability to perform its material obligations under the Series 2 Notes;

(l) Amend its Articles of Incorporation or By-Laws if such amendments have the effect of changing the general character of its business from that being carried on at the date hereof;

(m) Create, issue, assume, guarantee, or otherwise incur any bond, note, debenture, or similar security which shall be or purport to be subordinated obligations of the Issuer, or which shall be considered capital of the Issuer for any regulatory purposes, unless such obligation ranks *pari passu* with, or junior to, the Issuer's obligations under the Series 2 Notes in any proceedings in respect of the Issuer for insolvency, winding up, liquidation, receivership, or other similar proceedings (such proceedings, the *Winding-Up Proceedings*); and

(n) Allow the Series 2 Notes to be used as collateral for any loan made by the Issuer or any of its subsidiaries or affiliates, if any.

These covenants of the Issuer shall survive the issuance of the Series 2 Notes and shall be performed fully and faithfully by the Issuer at all times while the Series 2 Notes or any portion thereof remain outstanding.

Events of Default

The Issuer shall be considered in default under the Series 2 Notes in case any of the following events shall occur:

(a) The Issuer fails to pay any principal and/or interest due on the Series 2 Notes;

(b) Any representation and warranty of the Issuer or any certificate or opinion submitted by the Issuer in connection with the issuance of the Series 2 Notes is untrue, incorrect, or misleading in any material respect;

(c) The Issuer fails to perform or violates its covenants under the Series 2 Notes, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of ten (10) days from notice by the Public Trustee to the Issuer; *provided*, that the Negative Covenants specified shall not be remediable;

(d) The Issuer defaults in the repayment of any amount of principal and premium (if any) or interest, or violates any term or condition of any contract executed by the Issuer with any other bank, financial institution, or other person,

corporation, or entity for the payment of moneys which constitutes an event of default or with the giving of notice or the passage of time would constitute an event of default, under said contract; or, in general, the Issuer violates any contract, law, or regulation which (i) if remediable, is not remedied by the Issuer within the period provided in the relevant agreement, or is otherwise not contested in good faith by the Issuer, (ii) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity, and (iii) will, in the reasonable opinion of the Public Trustee, adversely and materially affect the performance by the Issuer of its obligations under the Series 2 Notes and the payment of any amount outstanding on the Series 2 Notes;

(e) Any indebtedness (being moneys borrowed or raised) of any of the Subsidiaries of the Issuer in excess of ₱500,000,000.00 in aggregate is not paid when due or, as the case may be, within any applicable grace period, any indebtedness of any such Subsidiary in excess of ₱500,000,000.00 in aggregate is declared to be or otherwise becomes due and payable prior to its specified maturity, or any creditor or creditors of any such Subsidiaries become entitled to declare any indebtedness of any such Subsidiary in excess of ₱500,000,000.00 in aggregate due and payable prior to its specified maturity. For the avoidance of doubt, the term "Subsidiaries" shall mean, at any particular time, a company or companies which are then directly or indirectly controlled, or more than 50% of whose issued equity share capital (or equivalent) is then beneficially owned, by the Issuer and/or one or more of its subsidiaries and "subsidiaries" shall be construed accordingly. For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company;

(f) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Issuer, or condemns, seizes, nationalizes, or expropriates all or substantially all of the properties or assets of the Issuer;

(g) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of ₱500,000,000.00 or its equivalent in any other currency is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within thirty (30) days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement;

(h) Any judgment, writ, warrant of attachment or execution, or similar process shall be issued or levied against all or substantially all of the Issuer's assets, singly or in the aggregate, and such judgment, writ, warrant, or similar process shall not be released, vacated, or fully bonded within thirty (30) days after its issue or levy;

(i) The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to

fortuitous events or *force majeure*, or when there is no material adverse effect on the business operations or financial condition of the Issuer;

(j) The Issuer becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, including (i) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, corporate rehabilitation, or other analogous proceeding; (ii) appointment of a trustee or receiver of all or a substantial portion of its properties; (iii) proposing or making of an assignment for the benefit of its creditors of all or substantially all of its properties; (iv) stopping, suspending, or threatening to stop or suspend payment of all or any part of its debts, (v) proposing to make any agreement for the deferral, rescheduling, or other readjustment of all or any part of its debts, (vii) an agreement or declaration of a moratorium in respect of or affecting all or any part of the debts of the Issuer occurs (viii) admitting in writing of its inability to pay its debts; or (v) an entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Issuer, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Issuer or a substantial portion of its property or assets occurs (the ***Insolvency Default***);

(k) Any act or condition or thing required to be done, fulfilled or performed at any time in order (a) to enable the Issuer to lawfully enter into, exercise its rights and perform the obligation expressed to be assumed by it under the Series 2 Notes, or (b) to ensure that the obligations expressed to be assumed by the Issuer hereunder are legal, valid and binding, is not done, fulfilled or performed at such time; and

(l) Any governmental consent, license, approval, authorization, declaration, filing or registration which is granted or required in connection with the Series 2 Notes expires or is terminated, revoked or modified, and the result thereof is to make the Issuer unable to discharge its obligations hereunder or thereunder.

Effects of Default Events

Except in the case of an Insolvency Default, the payment of principal on the Series 2 Notes may not be accelerated.

The Public Trustee shall, within three (3) Banking Days after receiving notice of the occurrence of any Event of Default, give to the Noteholders notice of the occurrence of an Event of Default.

If any one or more of the Events of Default shall have occurred and be continuing, after any applicable cure period shall have lapsed, the Public Trustee may, upon the written direction of persons holding at least 51% of the aggregate principal amount of the issued Series 2 Notes (the *Majority Noteholders*), require the Issuer to perform any act as the Majority Noteholders may reasonably require in order to cure the default as may be allowed under the BSP Rules, without prejudice to any other remedies to which the Noteholders may be entitled; *provided*, that in case of an Insolvency Default, the Public Trustee shall on its own (i) institute any Winding-Up Proceedings in accordance with applicable laws or perform any act for the enforcement of any obligation under, or collection of the principal and interest on, the Series 2 Notes on the understanding that the Series 2 Notes shall be subordinated in the right of payment of principal and interest to all depositors and other creditors of the Issuer, except those creditors expressed to rank equally with,

or behind holders of the Series 2 Notes, and/or (ii) declare the principal of the Series 2 Notes to be immediately due and payable, without prejudice to the other remedies available to the Noteholders, in accordance with the BSP Rules.

Meetings of Noteholders

All meetings of the Noteholders shall be held in Makati City upon prior notice.

Notice of Meeting of Noteholders

Subject to the terms of the Trust Agreement, notice of every meeting of the Noteholders, setting forth the time, place, and purpose of such meeting in reasonable detail, shall be sent by the Public Trustee to the Issuer and to each of the registered Noteholders not less than fifteen (15) days nor more than forty-five (45) days prior to the date fixed for the meeting and shall likewise be published in at least two (2) newspapers of general circulation in the Philippines for two (2) consecutive days at any time prior to the date stated in the notice for the date of the meeting; *provided*, that all reasonable costs and expenses incurred by the Public Trustee for the proper dissemination of required information on the requested meeting shall be reimbursed by the Issuer within three (3) Banking Days from receipt of the duly supported billing statement.

Taxation

If any payments of principal and/or interest under the Series 2 Notes shall be subject to deductions or withholdings for or on account of any present taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the *Taxes*), then such Taxes shall be for the account of the Noteholder concerned, and if the Issuer shall be required by law or regulation to deduct or withhold such Taxes, then the Issuer shall make the necessary withholding or deduction for the account of the Noteholder concerned; provided, however, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant Noteholder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar; and provided, further, that documentary stamp tax for the primary issue of the Series 2 Notes and the documentation, if any, shall be for the Issuer's account.

In the event that (a) due to a change in tax status of the Series 2 Notes because of changes in tax laws, any payments of principal and/or interest under the Series 2 Notes shall be subject to deductions or withholdings for or on account of any taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the *New Taxes*), and (b) the Issuer does not redeem the Series 2 Notes prior to stated maturity pursuant to this Master Note and the BSP Rules, then all payments of principal and interest in respect of the Series 2 Notes shall be made free and clear of, and without withholding or deduction for, any such New Taxes. In that event, the Issuer shall pay to the Noteholders concerned such additional

	amount as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction for New Taxes been required.
Banking Day	Any day in a week, other than Saturday or Sunday, when banks are not required or authorized to close in Makati City.

USE OF PROCEEDS

The net proceeds of the issue of the Series 2 Notes, after the deduction of fees, commissions and other related expenses, are expected to be approximately ₱4,467,433,832.90. The principal reasons for the issuance of the Series 2 Notes are to raise additional Tier 2 capital and to increase and strengthen the Bank's capital base.

CAPITALIZATION

The following table sets forth the audited consolidated capitalization and indebtedness of the Bank as at 31 December 2008. The translation of Peso amounts into U.S. dollars at the specified rate below is provided solely for convenience.

	As at 31 December 2008		
	Actual	As adjusted	
	(₱ millions)	(₱ millions)	(US$ millions) [1]
Short-term liabilities			
Deposit liabilities	561,320.6	561,320.6	11,812.3
Interbank loans, bills payable and other liabilities	84,748.5	84,748.5	1,783.4
Total short-term liabilities	646,069.1	646,069.1	13,595.7
Long-term liabilities			
Deposit liabilities	23,986.2	23,986.2	504.8
Interbank loans, bills payable and other liabilities	9,893.2	9,893.2	208.2
Subordinated Notes due 2013	-	-	-
Subordinated Notes due 2016	1,970.9	1,970.9	41.5
Subordinated Notes due 2017	8,440.6	8,440.6	177.6
Subordinated Notes due 2018	5,444.9	5,444.9	114.6
Subordinated Notes due 2019	0	4,467.4	94.0
Total long-term liabilities	49,735.8	54,203.2	1,140.7
Total Short & Long-Term Liabilities	695,804.9	700,272.3	14,736.4
Capital funds			
Issued share capital[2]	36,145.4	36,145.4	760.6
Hybrid Tier 1 capital securities	6,351.1	6,351.1	133.7
Capital paid in excess of par value	10,638.2	10,638.2	223.9
Surplus reserves	770.3	770.3	16.2
Surplus	17,276.6	17,276.6	363.6
Other equity adjustments	(6,089.4)	(6,089.4)	(128.1)
Minority interest in consolidated subsidiaries	3,912.3	3,912.3	82.3
Total capital funds	69,004.5	69,004.5	1,452.2
Total capitalization and indebtedness	764,809.4	769,276.8	16,188.6

Notes:

(1) The exchange rate used is ₱47.52 = US$1.00 on 31 December 2008.

(2) Par value ₱20.00 per share; authorized: 2,500,000,000 shares; as at 31 December 2008, 1,807,269,350 shares of common stock were issued and outstanding.

(3) Since 31 December 2008, there has been no material change in the capitalization or contingent liabilities of the Bank and its consolidated subsidiaries.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a universal bank in the Philippines which provides, through itself and other members of the Group, a full range of banking and other financial products and services including corporate, commercial and consumer banking products and services as well as credit card, investment banking and trust services. Based on Securities and Exchange Commission filings (Form 17-Q) as at 31 December 2008, the Metrobank Group was the second largest in asset size in the Philippines with total assets of ₱764.8 billion, total loans and receivables (net) of ₱358.2 billion and total deposits of ₱585.3 billion.

The Group, through the Bank, offers corporate and commercial banking products and services throughout the Philippines. Corporate banking consists of banking services provided to large Philippine companies (generally with revenues in excess of ₱870.0 million per annum), multinational companies and Government-owned and controlled companies, whereas commercial banking consists of banking services provided to small- and medium-sized businesses. As at 31 December 2007 and 31 December 2008, corporate and commercial loans represented approximately 74.6% and 72.6% of the Group's total loan portfolio, respectively.

The Bank is also a leading provider of consumer banking products and services in the Philippines. Through its network of branches, the Bank offers a wide range of deposit, mortgage and vehicle finance products and services, targeted primarily at existing customers of the Bank. The Group also offers consumer banking products and services to the general public through Philippines Savings Bank ("PSBank"), a 76.0% owned subsidiary of the Bank.

The Group offers trust banking services, credit card services and investment banking services through subsidiaries of the Bank, and is also engaged in other businesses, certain of which are unrelated to the financial services sector. See "Description of the Bank - Subsidiaries and Affiliates".

As at 31 December 2008, the Group had a total of 723 branches in the Philippines, of which 559 were operated by the Bank and 164 were operated by PSBank. The Bank's international operations consist of branches in Taipei, New York, Shanghai, Guam, Tokyo, Seoul, Pusan and a sub-branch in Osaka, together with representative offices in Beijing and Hong Kong. The Bank also has an extensive network of remittance centers in Asia, Europe and North America which has enabled it to become a leading provider of remittance services to Overseas Filipino Workers ("OFWs").

As at 31 December 2007, the Group's audited consolidated total assets and equity were ₱716.1 billion and ₱74.5 billion, respectively. As at 31 December 2008, the Group's audited consolidated total assets and equity were ₱764.8 billion and ₱65.1 billion, respectively. Its audited consolidated net income attributable to equity holders of the Parent Company for the year ended 31 December 2007 was ₱7.0 billion, with the audited consolidated net income attributable to equity holders of the Parent Company for the year ended 31 December 2008 was ₱4.4 billion.

The Bank has been listed on the Philippine Stock Exchange ("PSE") since its initial public offering in October 1980. Its market capitalization as at 31 December 2008 was ₱41.6 billion. The Bank was founded by Dr. George S.K. Ty, the current Chairman of the Bank Group and single biggest stockholder of the Bank. As at 31 December 2008, Dr. Ty, individually and through his family and associated companies, beneficially owned approximately 54.2% of the ordinary shares, thus effectively controlling the Bank and the composition of its Board of Directors. The remainder of the ordinary shares are held by the public.

As at 31 December 2007, the Group's Tier 1 capital adequacy ratio and total capital adequacy ratio were 9.2% and 13.9%, respectively, and as at 31 December 2008 were 10.0% and 13.4%, respectively.

HISTORY

The Bank was established on 5 September 1962 by a group of Filipino businessmen led by the current Chairman Dr. George S.K. Ty, principally to provide financial services to the Filipino-Chinese community. Since its formation, the Bank has diversified its business and now provides a broad range of banking products and services to all sectors of the

Philippine economy through an extensive domestic branch network and internationally through a network of foreign branches and representative offices.

The Bank was one of the first banks in the Philippines to gain a universal banking license, which was granted by the Bangko Sentral ng Pilipinas ("BSP") in August 1981. This license allows the Bank to engage in finance-related businesses such as savings and consumer banking, credit card and leasing products and services as well as "non-allied undertakings", which currently include motor vehicle assembly, travel and real estate.

Since its establishment with its first office located in Manila, the Bank's operations in the Philippines, and in particular its domestic branch network, have expanded organically and through a series of acquisitions and mergers. Rapid expansion of the Bank's domestic branch network occurred following a change in 1993 to the BSP's policy of restricting the opening of additional branches of banks in the Philippines.

The Bank's international network of foreign branches and representative offices has grown since the opening in 1975 of its first international branch in Taipei, such growth principally being in response to the increased volume of remittances by OFWs. As a result of this growth in the Bank's international network, the Bank has been able to augment its foreign exchange sources during a period of political instability in the Philippines in which access to foreign exchange was otherwise limited.

STRATEGY

The Bank's objective is to become the leading universal banking and financial services provider in the Philippines, serving a wide range of corporate, middle market and consumer customers. To achieve this objective, the Bank will take on a two-pronged strategy: it will focus on improving efficiency and expanding the business, and at the same time, it will continue to optimize its balance sheet position.

Focus on improving efficiency

The Bank continues to look for opportunities to optimise its customer services by increasing operational efficiencies (including developing, adopting and upgrading operating platforms and service systems) in the face of heightened competition in the banking industry. A number of initiatives have been implemented to enhance the information technology ("IT") infrastructure, product delivery systems, management information systems, and risk management systems. All branches are now fully integrated into the Bank's IT systems and all branch information, such as deposit information, is centralized and updated in real time. In addition, although BSP regulations do require certain functions at each of the Bank and its subsidiaries to be operated separately, the IT systems and accounting systems have been configured and upgraded such that it allows for better information flow across these systems. The Bank believes that these developments will lead to greater productivity and, therefore, improved operating results

Expanding its core business

Corporate segment

The Bank's large corporate customer base (defined as the top 1,000 corporations in the Philippines, multinational companies and government-owned and controlled companies) is vital to the Bank's business. These customers are a source of stable income and loans to this segment generally have a lower default rate than the rest of the loan portfolio.

The strategy for the corporate segment intends to leverage on the Bank's size for two reasons:

- few local banks can compare in terms of geographic coverage; and
- fewer can compare in terms of the Bank's SBL.

The Bank intends to take advantage of its large SBL (defined as 25.0% of the Bank's net worth) and wide branch network to enhance existing relationships and build on new names. This entails active involvement in every aspect of the client's business, whether in terms of its back-office, supply chain, systems, and even its decision-making process. This process has been started with the realignment of the Corporate Banking Group into distinct market segments to provide market focus to MNCs, conglomerates, large corporates, and public sector borrowers, and the entrepreneurial firms. In

addition, the Bank is expanding its service offerings to include project finance, capital markets, cash management, and derivatives to further meet the corporate segment's requirements.

The Bank has also launched multiple high quality and customized products and services, such as asset management and retirement fund products and services and investment banking services, to help further strengthen its existing relationships and to attract new customers.

Middle market

The Bank believes that the middle market, composed mainly of small and medium-scale enterprises ("SMEs") and corporate entities other than large corporate customers, offers significant growth opportunities. Being particularly strong in the commercial middle market because of its understanding of the needs of Chinese-Filipino customers (which make up a significant portion of this niche), the Bank believes there are many opportunities to strengthen its foothold in this segment.

One strategy is to strengthen relationships with existing clients by improving share of wallet – effectively getting more volume for the same risk. In addition, establishing tie-ups with entities in the early stages of their growth plans can often result in a stronger relationship once the customer grows to become a larger operation. In connection with this effort, the Bank is working to further strengthen its credit checking processes to help mitigate the increased risks associated with lending to less-established entities.

Specifically, the Bank will intensify the operations of its Branch Lending Group ("BLG"), which was set up to centralize efforts in growing the middle-market portfolio, and to free up branch heads for other sales initiatives. The BLG is manned by account officers who are highly competent in packaging middle-market deals, able to negotiate across a wider demographic and geographic market, and capable of achieving better portfolio quality. The Bank believes that setting up area-based account officers and credit support units can address customer requirements more effectively and within a short turnaround time. Under this model, the Bank has also begun revising credit processes to better support the sales units and manage credit risk.

Consumer segment

The Bank's consumer banking franchise includes home loans, vehicle finance, and credit cards. While the consumer lending market is an increasingly competitive environment in the Philippines, the Bank believes that potential returns are attractive. The Bank plans to fully utilize its large client base of over three million in retail clients and extensive branch network as major distribution channels. The Bank's consumer business will be further developed through tie-ups with property developers for end-buyers' financing, and corporate tie-ups for employee home and car loans.

Recognizing this segment's potential, the Bank began implementing the Branch Effectiveness and Sales Transformation ("BEST") project in 2005 to reorganize branches such that their focus shifts primarily to deposit-taking and retail lending. This allowed the branches to further tap into segments of the prime consumer base that may have not been targeted in the past.

In addition, the Bank continues to tap new customer segments through focused marketing campaigns and its extensive branch network, which, through BEST, has now become more sales-oriented. To support the sales and marketing efforts, back-end operations were significantly enhanced. One initiative is the development of the Insight project under the Customer Analytics Department, which will aid in understanding customers' needs, and help various product development units to better tailor-fit investment and loan products and services for the different client segments. Another is the implementation of loan-processing support programs which include an automated front-end loan processing and credit scoring system that speeds up loan approval and establishes consistent and uniform risk characteristics, and an electronic archival and retrieval system for loan documents.

Overseas Filipino remittances

Overseas Filipinos have been the fastest growing segment in the Philippine banking sector, with remittance volume reaching US$14.5 billion in 2007 and US$16.4 billion as at 31 December 2008. The Bank believes this is a business it can grow from its current 26% market share. The Bank is continuously looking to grow this segment by establishing its presence in Europe, United States, and Canada. In 2008, profits from its Asian and United States remittance businesses

have significantly contributed to the Bank's revenue while prospects for its European operations have consistently been improving. The Bank is currently expanding its remittance services in the Middle East, given the region's growing economy and increasing number of overseas Filipinos working and residing there. To be able to reach its goals, the Bank has embarked on a strategy to focus on what it calls 4Es, which is namely to:

- Enhance service offerings – introduce new products and services and enhance existing ones
- Expand points of presence – particularly in the US west coast
- Engage in more partners and tie-ups – specifically in the Middle East
- Expand acquisition and distribution – with key focus on distribution, which covers payout channels in the Philippines on top of our network of branches and ATMs. This include rural banks, pawnshops, etc. which offer longer business hours and presence in rural areas

Strengthen corporate governance

The Bank recognizes that good risk management goes beyond regulatory compliance and must be part of its growth strategy and day-to-day business. With stricter corporate governance requirements and compliance targets under Basel II, the Bank aims to promote credit excellence, focus on market and operational risks, and to uphold asset quality.

To promote credit excellence, the Bank has implemented the Achieving Credit Excellence module to speed up credit processing and minimize risks, and has begun re-engineering all aspects of the lending process, from defining the Bank's credit appetite, to loan origination, evaluation, administration, monitoring, servicing, and recovery. Similar tools such as the Internal Credit Risk Rating System have been in use to rate the overall borrower and facility risk of a particular corporate or commercial counterparty. In terms of credit risk exposure in the consumer segment, a scorecard is utilized. Account risk management, terms of offering and pricing are determined by the credit risk rating of counterparties. Furthermore, the Bank recently purchased an electronic credit approval and exposures management system from Algorithmics to facilitate better credit risk management through electronic data storage for credit modeling and ensure the integrity of the credit process through system-based controls. This was a substantial investment on the part of the Bank and is a concrete manifestation of its commitment to credit risk management. To minimize market and operational risks, the Bank has upgraded its market risk management and asset-liability management systems, the refinement of all its market risk models, e.g., VaR, IRRG and EAR, the operationalization of risk documentation and risk database to track loss events and fraud cases, and the tightening of its business continuity plan. To safeguard asset quality, the management of its non-performing assets ("NPAs") remains a priority.

Continue to improve the Bank's capital position

In 2006, the Bank initiated landmark transactions with the issuances of the US$125.0 million Hybrid Tier 1 capital securities in February and the 173,618,400 common shares out of its authorized but unissued shares of common stock at ₱38.0 per offer share in October. In October 2007, the Bank issued a further ₱8.5 billion 7.0% subordinated notes. In October 2008, the bank issued additional subordinated notes worth ₱5.5 billion with a coupon of 7.75%. These initiatives have placed the bank in a better position to take on more risk. With a total capital adequacy ratio of 13.4% as at 31 December 2008, well above the 10.0% minimum requirement, the Group is confident that it has the capability to execute its strategy of growing its loan portfolio, whilst maintaining a conservative provisioning policy on NPAs.

Clean up the balance sheet

In conjunction with its growth strategy, the Bank continues to review opportunities to make divestments of NPAs. Over the last four years, the Bank embarked on an aggressive campaign to dispose of approximately ₱12.7 billion in non-performing loans ("NPLs") and investment properties. This resulted in a significant drop in the Group's NPL ratio from 13.1% as at 31 December 2004 to 6.3% as at 31 December 2008, and a decline in the NPA ratio from 14.1% as at 31 December 2004 to 4.5% as at 31 December 2008. The Bank has improved its early-intervention efforts to reduce the number of mortgages that need to be foreclosed. These efforts are supported by the Special Accounts Management Group ("SAMG") which is tasked to do remedial management including sale of NPLs and to initiate foreclosures before these are turned over to the Acquired Asset Management and Disposition Group ("AAMDG"), which was set up to actively manage and, where appropriate, sell properties acquired in connection with the Bank's lending activities.

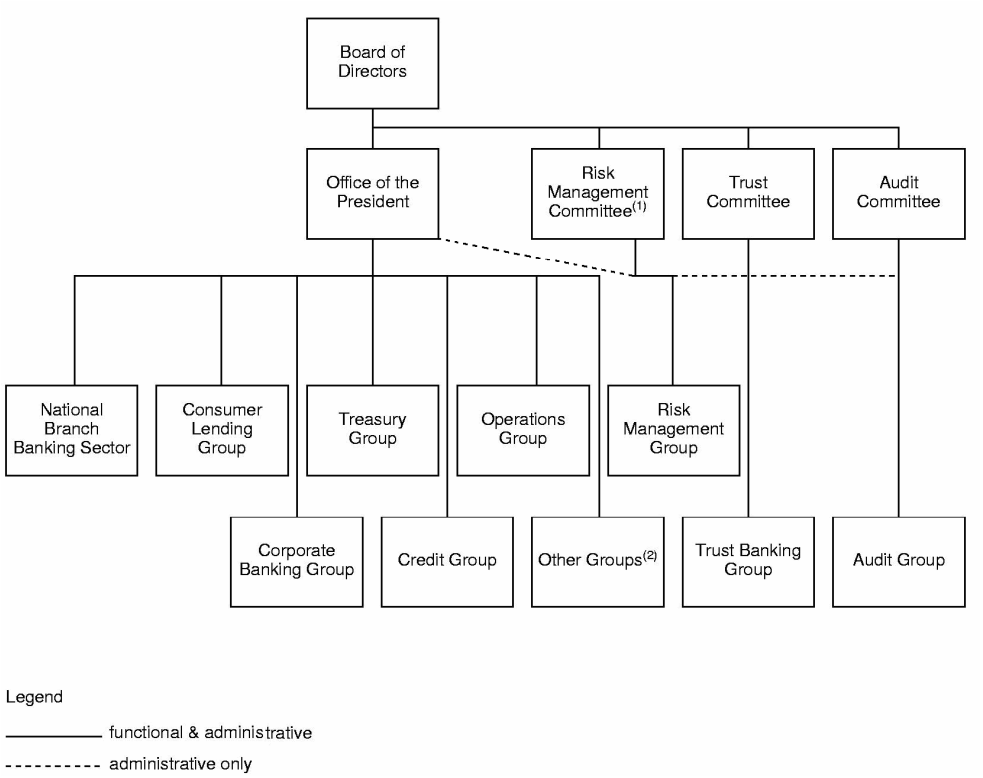
The key strategies for continued NPA disposal include:

- direct sales with the help of real estate brokers;
- cross-selling of Real and Other Properties Acquired ("ROPA") through the Bank's nationwide branch network;
- volume sales with potential investors; and
- tie-ups with reputable real estate firms for joint venture initiatives.

If market conditions permit, AAMDG is looking to dispose approximately ₱2.0 billion in ROPA this year.

ORGANIZATIONAL STRUCTURE

The following chart sets forth an overview of the organizational structure of the Bank and its principal activities:



Notes:

(1) The Risk Management Committee ("RMC") is a committee of the Board of Directors which monitors the Bank's credit, market and operational risks. The RMC also co-ordinates its activities with the Trust Committee and the Audit Committee with respect to the aforementioned risks. See "Risk Policy and Management".

(2) Includes Corporate Planning, Controllership, General Services, Human Resources Management, Legal, Remedial Management, Acquired Assets Administration and Disposition, Compliance and other ancillary groups.

Each of PSBank, First Metro Investment Corporation and Metrobank Card Corporation has their own separate organizational structures in place.

PRINCIPAL BUSINESS ACTIVITIES

The Group's principal areas of business are corporate and commercial banking, consumer banking, credit card services, investment banking and trust banking. The following table sets out the amount of net revenue generated by each of these businesses and the percentage of total income of the Group such income constituted for the three years ended 31 December 2006 , 2007 and 2008:

	For the year ended 31 December						
	2006		2007		2008		
	(audited)						
	(₱ millions, except percentages)						
Consumer banking[1]	5,936.9	18.0	7,741.3	21.3	9,289.8	26.9	
Corporate banking[1].....	2,640.7	8.0	2,794.2	7.6	6,378.7	18.5	
Investment banking.....	229.0	0.7	308.6	0.8	(271.0)	(0.8)	
Treasury	2,428.7	7.4	1,631.7	4.5	4,995.5	14.4	
Others[2].....	21,742.0	65.9	23,895.8	65.8	14,162.2	41.0	
Total revenue	32,977.3	100.0%	36,371.6	100%	34,555.2	100.0	%

Notes:

(1) Includes net interest income after provision for credit losses.

(2) Consists principally of service charges, fees and commissions, leasing and rental income, profit on assets sold or exchanged, recovery on written-off assets and other miscellaneous income.

For the three years ended 31 December 2006, 2007 and 2008, 9.2%, 8.3% and 7.2%, respectively, of the Group's net income attributable to equity holders of the Parent Company was generated from its operations outside of the Philippines.

The Group's core businesses are its corporate and commercial banking and consumer banking businesses. The following table sets out the gross amount of loans made to its market segments, and the percentage of total loans of the Group such loans constituted, as at 31 December 2006, 2007 and 2008:

	As at 31 December						
	2006		2007		2008		
	(audited)						
	(₱ billions, except percentages)						
Corporate loans[1]	172.6	61.2	182.3	60.6	201.3	57.5	
Commercial loans[2]	60.3	21.4	54.6	18.1	69.3	19.9	
Consumer loans.....	49.1	17.4	63.9	21.3	78.3	22.6	
Total loans.....	282.0	100.0%	300.8	100.0%	348.9	100.0	%

Notes:

(1) Loans made to large Philippine corporations, generally with revenues in excess of ₱700.0 million per annum, multinational companies and Government-owned and controlled companies.

(2) Loans made to small- and medium-sized businesses.

Corporate and commercial banking

The Bank provides corporate and commercial banking products and services to a significant number of large and middle-market corporations and their subsidiaries, as well as to small- and medium-sized businesses in the Philippines through a

multi-channel distribution system, including its extensive branch network. The Bank believes it is the leading bank in the Philippines for middle-market Filipino-Chinese businesses in terms of deposit-taking and lending.

The Group's corporate and commercial banking business generated net interest income of ₱5.8 billion, ₱5.1 billion and ₱9.5 billion for the three years ended 31 December 2006, 2007 and 2008, respectively. As at 31 December 2007 and 2008, loans to corporate and commercial customers represented approximately 78.8% and 77.5%, respectively, of the Group's total loan portfolio.

Corporate banking

The Group provides a wide range of products and services to its corporate customers, including term loans, revolving credit lines, foreign currency loans, infrastructure loans, trade finance and cash management products and services. The Bank also provides omnibus credit lines for its large corporate customers, allowing the customer to draw on such credit lines in the form of a short-term loan or to utilize such credit lines for trade financing or other forms of credit.

As at 31 December 2007 and 2008, accounts of large corporate customers (classified by the Bank as customers within the top 1000 companies in the Philippines, multinational companies and Government-owned and controlled companies) represented approximately 57.7% and 54.6% of the Group's total loan portfolio, respectively. Currently, majority of the top 1000 Philippine companies are customers of the Bank. As at the same dates, accounts of the Bank's small- to medium-sized corporate customers (consisting of all Philippine companies other than large corporate customers) represented approximately 23.1% and 24.8% of the Group's total loan portfolio, respectively. Most of the Bank's corporate lending is undertaken on a non-syndicated basis, although the Bank also syndicates large transactions. Substantially all of the Bank's corporate clients are based in the Philippines and are engaged in manufacturing, wholesale and retail trade, agriculture and fisheries, utilities, telecommunications, building and construction and property investment and development. Almost all of the Bank's corporate lending activities support projects and businesses in the Philippines. Facilities offered to corporate customers include both secured and unsecured loan products, with pricing based on the credit risks associated with the customer and their business. The vast majority of the Bank's current corporate lending consists of short- to medium-term term loans. The Bank also participates in syndicated loans and provides a limited amount of working capital funding by way of bills purchased and/or trade finance.

In corporate banking, the Bank is increasingly market-focused and has established different sub-groups and desks to penetrate MNCs, conglomerates, Japanese corporations, large corporates and public sector, and entrepreneurial firms.

The Bank offers both Peso-denominated and foreign currency (primarily U.S. dollar-denominated) loans. It is the Bank's policy to extend foreign currency loans only to customers who have U.S. dollar revenues or who are otherwise hedged. Most of the Bank's corporate loans are made on a floating rate basis.

The Bank has also obtained accreditation from various export credit agencies and multilateral agencies to provide corporate clients with additional sources of medium- to long-term funding to finance imports of capital goods and equipment at fixed and floating rates for longer tenors.

The Bank has a customer-focused strategy and has recruited qualified professionals, including relationship managers and other management personnel, to strengthen business development and portfolio management capabilities. CBG aims to develop and maintain mutually beneficial relationships with institutional clients within its target market segments by providing wholesale banking services including but not limited to corporate finance, investment banking, cash management, trade services, and structured finance. The Bank's relationship managers in CBG and other client management divisions of the Bank are responsible for business generation, new product development, customer satisfaction, and maintaining a loan portfolio of high quality accounts. CBG and other relationship managers are also focused on selling of the Group's wide range of financial products and services. The expanded line of non-lending services offered by the Group, including investment and trust banking services, are being actively promoted by the Bank's relationship managers to existing and potential clients of the Bank. As at 31 December 2008, CBG's loan portfolio was highly concentrated on real estate, manufacturing, and wholesale and retail trade. These three sectors comprised 21.3% of the Bank's total loan portfolio.

The Bank has also directed its efforts towards increasing low-cost deposits from its corporate banking clients. Such deposits accounted for a substantial segment of the Bank's total deposit business, contributing almost ₱209.2 billion and

₱229.2 billion as at 31 December 2007 and 2008, respectively. This reflects the fact that the Bank continues to be a major depository bank for many of its corporate banking customers.

Commercial banking

The Bank's commercial banking group provides a wide range of banking products and services to its commercial "middle-market" customers. The Bank classifies all customers engaged in business (other than corporate customers handled by head office) as commercial banking customers. BLG was newly created in September 2006 to centralize efforts in the middle-market segment and is focused primarily on commercial lending in amounts in excess of ₱5.0 million. Aside from term loans and revolving credit facilities, the banking products and services offered by the Bank include to its commercial banking customers deposit products bills purchase facilities, trade finance, payment remittances and foreign exchange transactions. In addition, the Bank cross-sells the other products and services of the Bank and its subsidiaries, including investment and trust banking services, to its commercial banking customers.

As at 31 December 2007 and 2008, the Bank had approximately 7,190 and 8,507 commercial accounts, respectively, with a large portion accounted for by the Chinese-Filipino community, and outstanding loans to commercial customers constituted 17.0% and 18.0%, respectively, of the Group's loan portfolio. Most of the Bank's commercial customers are engaged in the manufacturing and wholesale and retail trade industries. The predominant needs of the Bank's traditional customers in the Chinese-Filipino commercial middle-market are trade financing facilities (such as letters of credit ("LCs"), trust receipts, export-financing and the discounting of commercial bills, as well as inventory financing) and term loans.

The Bank offers both Peso-denominated and foreign currency (primarily U.S. dollar-denominated) loans. It is the Bank's policy to extend foreign currency loans mainly to customers who have foreign currency revenues or who are otherwise hedged. Most of the Bank's commercial loans are made on a floating rate basis.

The Bank's strategy is to increase its small- and middle-market customer base by continuing to pursue a selective lending programme that will ensure the quality of its loan portfolio and maintain a low loan delinquency ratio. The Group believes that there are many under-served customers within this market that have the asset base, cash flows, management and business plan requisite to becoming quality customers of the Bank. As at 31 December 2007 and 2008, the contribution of the Bank's commercial banking business to the Group's loan portfolio was ₱51.1 billion and ₱62.7 billion, respectively.

The Bank has also directed its efforts towards increasing low-cost demand and savings deposits from commercial clients by increasing its market share on deposits of existing prime accounts and acquisition of new accounts. Based on its non-consolidated figures as at 31 December 2007 and 2008, the Bank had increased its low-cost Peso deposits to ₱181.9 billion and ₱193.6 billion, respectively, and its low-cost foreign currency deposits to US$662.3 million and US$747.6 million, respectively, comprising an 18.8% increase and 6.4% increase in low-cost Peso deposits and a 16.9% decrease and 29.9% increase in low-cost foreign currency deposits, compared to 31 December 2006. The Bank defines low-cost deposits as deposits that earn an interest rate of up to 0.75%.

Trade finance

The Bank offers a range of trade finance products and services including LCs, standby LCs, export advances and the discounting of commercial bills.

The Bank believes that it is the leading provider (by value and by volume) of commercial import LCs and bank guarantees in the Philippines. For the years ended 31 December 2007 and 2008, the value of the Bank's transactions (LCs and non-LCs, excluding LCs issued by the Bank's international network) was approximately US$1.8 billion and approximately US$2.6 billion, respectively. Likewise, the Bank is actively providing support to local trade as evidenced by domestic commercial and standby LCs amounting to ₱14.4 billion and ₱16.6 billion for the years ended 31 December 2007 and 2008, respectively. In addition, the Bank provides documentary collections for exports by local and multinational companies in the Philippines, the value of such transactions amounting to approximately US$1.5 million for the year ended 31 December 2007 and approximately US$1.6 million for 2008. This market leading position reflects the Bank's strategy to leverage the geographic reach of its international branch network in the provision of its trade finance products and services.

The Bank also extends other trade finance-related services to its customers including advice on documentary credits and advances to exporters against export bills. Trade finance loans typically have short maturities and the Bank's primary focus is on providing working capital trade finance.

Leasing

The Group operates a leasing business through a majority-owned subsidiary of the Bank, ORIX METRO Leasing & Finance Corporation ("ORIX METRO"), a joint venture with ORIX Corporation of Japan. ORIX METRO and its 100.0% owned subsidiaries, ORIX Auto Leasing Philippines Corporation and ORIX Rental Corporation, are principally involved in both financial and operating leases of motor vehicles, various types of equipment for manufacturing, materials handling, medical, telecommunications, office and other assets catering mainly to corporations and also extend mortgage loans to small- and medium-sized entrepreneurs, particularly in provincial areas. ORIX METRO has a total branch network of 28 offices located in key cities throughout the country. (The Group does not include ORIX METRO branches when discussing or otherwise referring to its branch network as ORIX METRO's business is separate and different from the Group's corporate, commercial and banking business.)

For its fiscal year ended 30 September 2008, ORIX METRO generated net income of ₱252.3 million for a return on average equity of 21.1%. As at 31 December 2008, ORIX METRO had ₱2.2 billion of net investments in leases, ₱3.6 billion in net finance receivables and ₱7.7 billion in total assets. For the 3 months ended 31 December 2008, ORIX METRO posted revenues of ₱65.4 billion.

SMBC Metro Investment Corporation

The Group has a 30.0% minority interest in SMBC Metro Investment Corporation ("SMIC"), which was established in January 1995 with the Sumitomo Mitsui Banking Corporation ("SMBC") and a third party investment vehicle, Gemland International Holdings Inc. SMIC provides investment banking products and services, including lending and corporate finance services, primarily to Japanese companies operating in the Philippines. SMBC owns 40.0% of SMIC, with the remaining 30.0% owned by Gemland. In the year ended 31 December 2008, SMIC generated net income of ₱43.6 million on total revenues of ₱81.1 million.

Specialized lending

The following table sets forth the loans made by the Bank which are long-term specialized lending for project financing funded by the Government (such as the Social Security System) and supranational organizations such as the World Bank, which are channelled through wholesale Government banks, such as the Development Bank of the Philippines ("DBP") and Land Bank of the Philippines.

	As at 31 December					
	2006		2007		2008	
	(₱ billions, except percentages)					
DPB – Industrial Guarantee Loan Fund	278.0	100.0	110.4	100.0	58.6	100.0
Other programmes	-	-	-	-	-	-
Total	278.0	100.0 %	110.4	100.0 %	58.6	100.0 %

Under the terms of these programmes, the World Bank and other supranational organizations advance funds to the Bank, which on-lends the funds to the specified borrower. Borrowers under the programmes are generally entities involved in assisted sectors such as manufacturing, agriculture, health services and certain developing industries. The Bank earns a margin from the on-lending of these funds.

Consumer banking

The Group provides consumer banking services through the Bank and PSBank. The Group's principal consumer banking products and services include bank deposits, home mortgage loans, vehicle finance and consumer finance. Consumer loan applications are generally coursed through and pre-screened at the branches, as the Group's primary distribution channel. Thereafter, these are endorsed to the appropriate processing units for evaluation and approval. As at 31 December 2007, the Group had, on a consolidated basis, ₱58.6 billion of consumer loans to individuals, ₱14.4 billion of which was generated by the Bank and ₱29.6 billion of which was generated by PSBank. As at 31 December 2008, the Group had, on a consolidated basis, ₱72.7 billion of consumer loans to individuals, ₱23.7 billion of which was generated by the Bank and ₱36.0 billion of which was generated by PSBank.

While the operations of the Bank are largely run separately from those of PSBank, the two banks co-operate to ensure wider market coverage for the Group. The Bank focuses on its own customer base, while PSBank targets the general borrowing public. Historically, the Bank conducted a substantial proportion of its small personal deposit-taking and lending business for house purchases and vehicle finance through PSBank. However, in order to market consumer banking products and services to its own customer base more effectively, the Bank established its own consumer lending group in 1996.

In recent years, the Bank has focused on expanding its consumer banking business, principally through a directed marketing strategy, using its extensive domestic branch network, and by direct sales methods. In particular, the Bank offers a wide range of consumer banking products to customers that are employees of the Bank's corporate customers and to owners of small- and medium-sized businesses by using its branch network. The Bank, to a lesser extent, also utilizes traditional communication channels, such as print and advertising, to offer the Bank's consumer loan products to the market. As part of its growth strategy, the Bank has been developing a comprehensive database of target customers for its consumer banking products and services.

The Group's consumer banking business generated net interest income of ₱4.3 billion, ₱5.7 billion and ₱6.4 billion for the three years ended 31 December 2006, 2007 and 2008, respectively.

Deposits

The Bank offers corporates and consumers a range of deposit products, including current accounts, which are interest and non-interest bearing demand deposits, savings accounts and time deposits in Peso, U.S. dollars and other foreign currencies. The Group's principal depositors are individuals in the Philippines. As at 31 December 2007 and 2008, total deposits were approximately ₱529.5 billion and ₱585.3 billion, respectively. As at the same dates, 80.1% and 78.0% of the Bank's deposits were Peso-denominated, with the remainder denominated in foreign currencies, principally U.S. dollars.

Home mortgage loans

Home mortgage loans issued by the Bank represented ₱16.6 billion, or 21.2%, of the Group's total loans to consumers as at 31 December 2008 and ₱12.5 billion, or 19.5%, as at 31 December 2007. The Bank is currently working to grow its home mortgage loan business through tie-ups with real estate developers and, to a lesser extent, advertising campaigns. The Bank spun-off the Wholesale Department of the Home Financing Division into a Wholesale Real Estate Division to focus on developer and corporate tie-ups.

The large majority of home mortgage loans are extended to property buyers in the Philippines who intend to occupy the premises, with a small proportion being extended to individuals purchasing residential units for investment purposes. Through tie-ups with housing developers, the Bank also purchases home loans via Contracts-to-Sell ("CTS") from developers that directly finance the sale to the buyer. These loans usually provide full recourse to the developer. These CTS transactions may be converted into regular end-buyer financing by the Bank upon loan application approval by the Bank. All of the Bank's home mortgage loans are secured by a first ranking legal charge over the property. In the case of loans to certain corporate borrowers, the Bank often requires personal guarantees to be given by appropriate officers of the borrower as additional security. Traditionally, the Bank, as well as other lenders, required home mortgage borrowers to have an equity interest equal to at least 30.0% of the value of the property. However, due to an increase in competition

in the mortgage industry, many borrowers are now able to secure mortgages for certain types of residential property from lenders, including the Bank, with only a 20.0% down payment.

The average maturity of the Bank's home mortgage loans is ten years. In accordance with industry practice in the Philippines, interest rates on the Bank's home mortgage loan portfolio are generally agreed with the relevant borrower at a fixed rate applicable for an initial period of between one and ten years, depending on the maturity of the loan. Following the expiry of this initial period, the interest rate is reset at a fixed rate applicable for succeeding periods. The Bank offers a range of different home mortgage products under the "MetroHome Financing" brand. The Bank believes that the repayment term on the average mortgage loan issued by the Bank is shorter than the industry average due to the quality of its customers, which helps decrease the default rates on the Bank's mortgage loans, but also promotes sustainable growth in the Bank's mortgage loan portfolio. As at 31 December 2008, only 1.6% of the Bank's mortgage loans were classified as non-performing loans, compared to 1.3% as at 31 December 2007.

When a borrower falls in arrears with its mortgage payments, it can either agree to a voluntary disposition of the property to the Bank or the Bank may commence foreclosure proceedings. It generally takes between six and 24 months to foreclose mortgaged collateral, which is then generally sold by public auction or through brokers on behalf of the Bank. However, the individual mortgagor or any of its creditors having a lien over the collateral continues to have the right to repurchase such collateral within one year of completing foreclosure in return for payment of principal and interest owed plus the Bank's out-of-pocket expense.

The Bank established the Acquired Asset Management and Disposition Group to actively manage and, where appropriate, sell properties acquired in connection with its lending activities. For the years ended 31 December 2007 and 2008, the Group sold approximately ₱4.9 billion of investment properties each year, compared to ₱1.6 billion for the year ended 31 December 2006. Efforts to diversify methods for the disposal of investment properties have been actively pursued by the Group and include public auctions managed by auctioneers, CB Richard Ellis and The Property Forum Philippines, sales conducted through brokers and pursuant to employee referrals, as well as going into joint venture projects with property developers. The Group has also increased its early-intervention efforts to work to reduce the number of mortgages that need to be foreclosed.

Vehicle finance

As at 31 December 2007 and 2008, loans advanced by the Group for the purchase of vehicles amounted to ₱24.1 billion and ₱28.1billion, respectively, or 37.8% and 35.9% of the Group's consumer loan portfolio, respectively, compared to ₱18.5 billion, or 37.7%, as at 31 December 2006. Vehicle loans advanced by the Bank generally have maturities of between 12 and 60 months, and the Bank retains the right to repossess the vehicle in the event of payment default.

Philippine Savings Bank

The Group also offers a range of retail and consumer banking products and services through PSBank, a subsidiary which is managed and operated independently of the Bank. PSBank is a savings bank authorized by the BSP to engage in savings and mortgage banking in the Philippines. PSBank was the first publicly-listed savings bank in the Philippines and, as at 31 December 2008, was the second largest savings bank in the country in terms of total deposits and total assets according to industry data. PSBank offers a wide range of products and services to the consumer market, principally to individuals, but also to small- and medium-sized businesses. As at 31 December 2007 and 2008, PSBank had total assets of approximately ₱68.7 billion and ₱74.6 billion, respectively, total deposits of approximately ₱57.8 billion and ₱61.7 billion, respectively, and a total loan portfolio of approximately ₱39.4 billion and ₱45.7 billion, respectively. This is compared to total assets of ₱62.4 billion, total deposits of ₱51.4 billion and a total loan portfolio of ₱33.8 billion as at 31 December 2006. Its net income for the years ended 31 December 2007 and 2008 were approximately ₱1.0 billion and ₱940.1 million respectively, compared to ₱818.8 million for the year ended 31 December 2006.

PSBank's branch network is operated separately from the Bank's domestic network. However, to take advantage of the Bank's brand recognition, PSBank also includes the phrase "a subsidiary of Metrobank" in its logo. As at 31 December 2008, PSBank had a total of 164 branches, 97 of which were located in Metro Manila. PSBank plans to open a minimum of 8 new branches by end-2009. To facilitate the establishment of new PSBank branches, the Bank has transferred excess

branch licenses to PSBank. ATMs are installed in PSBank's branches, as well as a number of offsite locations. PSBank, like the Bank itself, is a member of BancNet, a consortium of 40 banks whose ATMs have been pooled for the common use of their respective customers.

PSBank offers a wide range of consumer banking products and services to its customers. Its deposit products and services include a number of demand, savings and time deposit accounts, denominated in both Peso and U.S. dollars. PSBank's range of consumer loan products includes loans for vehicle financing, home loans and personal loans. In particular, personal loans are marketed to employees of the Bank's corporate customers. PSBank's personal loans are offered either on the basis of payments being made directly by the borrower or, for employees of participating companies, by deduction of payments directly from the borrower's salary. Personal loans carry high interest rates, primarily due to the higher default rate in relation to these loans. Other services offered by PSBank include trust services, payment collection services, payroll services, and other consumer banking services.

PSBank undertakes a different customer acquisition strategy and has a different customer profile to that of the Bank. PSBank's customer acquisition strategy involves sourcing new customers from the general borrowing public through various sales channels including direct mailing and direct sales, whereas the Bank principally cross-sells to its existing customers. However, the Bank and PSBank co-operate to ensure wider market coverage. The average size of PSBank's deposits and loans is smaller than that of the Bank, reflecting PSBank's focus on the "emerging mass-market" sector of the consumer banking market and its corresponding wider client base than that of the Bank.

PSBank's principal source of funding is deposits from the general public. As at 31 December 2007 and 2008, PSBank's total deposits represented approximately 10.9% and 10.5% of the Group's total deposits, respectively. As at 31 December 2007 and 2008, PSBank had a total loan portfolio of ₱39.4 billion and ₱45.7 billion, representing approximately 13.1% and 13.1% of the Group's total loan portfolio as at those dates.

As at 31 December 2007 and 2008, PSBank's total non-performing loans represented 8.9% and 7.9% of its total loan portfolio. This is a 25% increase and 28% increase on its total non-performing loans, compared to 31 December 2006. PSBank's allowance for credit losses on receivables from customers in the years ended 31 December 2007 and 2008 were ₱2.2 billion and ₱2.6 billion, representing 55.8% and 60.2% of its total amount of non-performing loans. This is compared to ₱1.6 billion for the year ended 31 December 2006, which represents 58.3% of its total amount of non-performing loans. The amount of PSBank's non-performing loans continued to increase due to increased corporate loans and the natural rise in its consumer loan portfolio.

As at 31 December 2008, PSBank's Tier 1 capital adequacy ratio and total capital adequacy ratio were 13.10% and 17.4%, compared to 10.5% and 15.7% as at 31 December 2007, respectively. As at 31 December 2008, PSBank had a market capitalization of ₱9.8 billion.

The tables below set forth selected financial ratios of PSBank derived from PSBank's audited financial statements as at and for the three years ended 31 December 2006, 2007 and 2008:

	As at and for the year ended 31 December		
	2006	**2007**	**2008**
Selected financial ratios			
		(percentages)	
Return on assets[1]	1.4	1.6	1.3
Return on equity[2]	13.1	14.8	12.5
Net interest margin[3]	5.3	5.4	5.2
Total capital adequacy ratio [4]	19.4	15.7	17.4
Loans to deposits ratio[5]	61.2	63.1	68.6

	As at and for the year ended 31 December		
	2006	2007	2008
Selected financial ratios			
	(percentages)		
Non-performing loans to total loans[6]	9.0	7.1	5.6
Non-accruing loans to total loans[7]	7.2	7.3	7.7
Allowance for credit losses to non-performing loans[8]	58.3	55.8	60.2
Allowance for credit losses to non-accruing loans[9]	63.0	73.0	72.0

Notes:

(1) Net income divided by average total assets for the period indicated.

(2) Net income divided by average total equity for the period indicated.

(3) Net interest income divided by average interest-earning assets.

(4) Total capital divided by total risk-weighted assets (non-consolidated).

(5) Total loans divided by total deposits (excluding from other banks).

(6) Total non-performing loans divided by total loans.

(7) Total non-accruing loans divided by total loans.

(8) Allowance for credit losses divided by total non-performing loans.

(9) Allowance for credit losses divided by total non-accruing loans.

Domestic branch network

As at 31 December 2008, the Group had a total domestic branch network of 723 branches, comprising 559 branches of the Bank and 164 branches of PSBank.

The Bank's domestic branch network is the third largest in both Metro Manila and the Philippines as a whole. The Bank's branches are divided into two principal groups, one covering Metro Manila and the other covering other areas in the Philippines. Each group is responsible for the management and operation of branches in its area. Staff are employed and trained at the Bank's head office training center, which provides courses for new branch officers and staff.

The following table illustrates the expansion of the Group's network in recent years and sets forth the number of domestic branches as at 31 December 2006, 2007 and 2008 (excluding ORIX METRO branches):

	As at 31 December		
	2006	2007	2008
Metro Manila branches of the Bank	317	310	310
Countryside branches of the Bank			
— Luzon	115	111	115
— Visayas	73	72	73
— Mindanao	52	51	54
Total Bank branches	557	544	552

	As at 31 December		
	2006	2007	2008
PS Bank	150	163	164
Total Group branches	707	707	716

The Bank's domestic branch network accounted for approximately ₱525.0 billion of the Bank's deposits as at 31 December 2008, comprising approximately 99.5% of the Bank's total deposits of ₱527.9 billion. As at 31 December 2008, the Bank's Metro Manila branches accounted for approximately ₱322.9 billion, or 61.2%, of the Bank's total deposits from its domestic branch network compared with ₱202.1 billion or 38.1% coming from the countryside branches.

All of the Bank's branches are able to offer a wide range of products and services from demand deposit accounts, savings and time deposits to lending facilities. In addition, dedicated trade finance and foreign exchange facilities are on offer in certain branches where such services may be required.

The Bank is continuing with its efforts to restructure its branch network following the addition of branches as a result of acquisitions of Philippine Banking Corporation, Asian Bank Corporation and Solidbank Corporation in 1999 and 2000. As a result of these efforts, the Bank has increased the number of branches in Metro Manila from 268 at 31 December 2000 to 310 as at 31 December 2008 and outside Metro Manila from 203 as at 31 December 2000 to 242 as at 31 December 2008. In addition, the Bank has transferred 14 excess branch licenses to PSBank over the past four years.

The Bank has also been reducing the size of certain branches in order to maximise their efficiency and has opened smaller "mini" branches and sales centers for the Bank's range of products and services in strategic locations such as shopping malls. In addition, the Bank refurbishes its branch network on a continuous basis and has refurbished 68 branches during 2008.

The Bank has a regional branch control system with branches reporting to, and receiving support services from, their sub-regional offices headed by cluster heads, who themselves report to the area heads. This system ensures control at all levels and is complemented by each branch accountant also being required to report on significant matters directly to the Controllership Group in the Bank's head office.

The Bank has, as a matter of policy, endeavoured to balance the responsibility given to its branches with the need for centralized control. Branch Credit Committees, for example, are permitted to process loans (secured by real estate mortgages) of up to ₱5.0 million and are actively encouraged to identify potential growth areas for additional branches. On a regional level, the Bank has established Branch Lending Units ("BLU"), Credit Support Units ("CSU"), and Retail and Middle Market Departments to centralize the branches' lending operations in order to improve efficiency and maximise cost-effectiveness. Following approval of a loan, the said units are responsible for the documentation, book-keeping and administration of the loan. The loan account and the income from it remain with the originating branch, which is also responsible for collection of payments due on the loan.

Currently, the Group, through the Bank and PSBank, operates a total of 1,010 ATMs. The Bank is expanding the availability of its ATMs at its branches and off-site, principally in shopping malls and a number of large factories. The Bank has upgraded its ATM infrastructure to comply with the Triple Data Encryption System requirements of MasterCard and VISA.

The Bank is a founding member of BancNet, a consortium of 31 member banks whose ATMs have been pooled for the common use of their respective customers. The BancNet system is linked to two other Philippine ATM networks, Megalink and ExpressNet. Together these three networks provide access to over 5,000 ATMs. Banks which are members of BancNet pay a service fee for each transaction by that bank's customer on another bank's ATM. The Bank currently profits from this arrangement since usage by the other banks' customers of its ATMs occurs more frequently than the reverse.

Electronic banking

In 2001, the Bank launched its electronic banking platform with the launch of its mobile banking facility, which allows customers of the Bank to carry out banking business using SMS text messaging via mobile telephones. The Bank currently also offers the following electronic banking services:

(1) *Metrobank E.T. International Cards*. ATM cards which provide the Bank's clients with access to over 1,000,000 ATMs in 210 countries.

(2) *Metrophonebanking*. Telephone banking, which is an automated transaction processing service available to all deposit holders of the Bank and allows for online processing of banking transactions through a touch tone phone.

(3) *Metrobankdirect-retail*. An internet banking facility, which allows the Bank's consumer customers to effect banking transactions and access the Bank's products and services through the internet using their personal computers. In the third quarter of 2006, Metrobankdirect-retail was enhanced to allow pledging of funds for equities trading, and an automated straight-thru-process to the stock trading website of the Group's securities brokerage firm.

(4) *Metrobankdirect-corporate*. An internet banking facility similar to Metrobankdirect-retail which is offered to the Bank's corporate and commercial customers. In 2007, Metrobankdirect-corporate was enhanced to include the electronic invoice presentment and payment feature. In 2008, Metrobankdirect-corporate was enhanced to include the comprehensive disbursement module.

(5) *Tax Direct Facility*. A facility offered by the Bank, in conjunction with the Bureau of Internal Revenue, that allows the Bank's corporate customers to file their tax returns and pay their taxes through the internet.

Metrobankdirect-retail and Metrobankdirect-corporate were launched in 2002. Although the Bank considers these initiatives to have growth potential, only a relatively small proportion of all banking transactions are currently effected using these platforms. The Bank also believes that its internet banking platform offers a strong competitive advantage as it enables a much wider range of banking services to be transacted via the internet compared to the platforms which are operated by its rivals.

Credit Card services

The Group began its credit card operations in August 1985 through a wholly-owned subsidiary of the Bank, Metrobank Card Corporation ("MCC"). In October 2003, ANZ purchased 40.0% of the shares of MCC. Under the agreement between ANZ and the Bank, ANZ has agreed to contribute its expertise in running credit card businesses to MCC. The past two Presidents of MCC and the newly appointed President, appointed in November 2009, are employees of ANZ, brought into the Group's credit card operations to help streamline, modernize and grow MCC's operations in its cards issuing and cards acquiring business lines. The rest of MCC's employees are locally hired. For the three years ended 31 December 2006, 2007 and 2008, the Group's credit card business had net income after tax of ₱653.6 million, ₱781.9 million and ₱834.5 million, respectively.

The current focus of the Group's credit card operations is continued growth in the number of profitable cardholders and the development of robust policies and procedures to support the development of its merchant acquiring business line.

MCC continues to leverage its relationship with ANZ to help strengthen its credit policies and its audit and control procedures. MCC has an established credit risk department which continues to modernize and streamline its credit risk management practices and processes. ANZ maintains direct oversight of MCC's credit function through its Head of Retail Credit Risk for Asia, based in Manila.

To ensure prudent expansion into new market segments, MCC conducts credit tests and is currently in the process of developing a robust application scorecard. MCC also focuses on delinquent account management through escalating collection strategies ranging from telephone follow-ups as soon as a payment date is missed to forwarding accounts to external collection agencies. As a result of these efforts, MCC's past due ratio (the ratio of its past due accounts to its total receivables portfolio) is one of the lowest in the credit card industry at only 6.36 % as at 31 December 2008.

MCC offers its credit card products through the Bank's domestic branch network as a means of increasing cardholder growth and credit transaction volumes. Depositors of the Bank and PSBank are targeted through direct solicitation by branch personnel, bundling of its credit card services with other products and services offered by the Group and other advertising campaigns. Although the bulk of the credit card applications are branch-sourced, MCC recognizes the opportunity to expand into the non-depositor customer market through the use of other sales channels such as Direct Sales and Telemarketing Agencies. New products targeting different market segments such as the Femme Visa for the young female customers, M Lite and M Free for the price conscious market, and Go! MasterCard for the frequent shopper/traveller segment have also been rolled out to differentiate MCC cards from other cards in the market and to strengthen MCC's product proposition. MCC has rewards programmes in place, including mileage programmes with Philippine Airlines, Singapore Airlines and Cathay Pacific to encourage card take-up and usage. As at 31 December 2007 and 2008, MCC had approximately 869,032 and 881,073 cardholders, respectively, compared to 745,304 as at 31 December 2006. As at year-end 31 December 2007 and 2008, MCC's total outstandings amounted to ₱13.2 billion and ₱ 15.9 billion, respectively, compared to ₱10.1 billion as at 31 December 2006.

MCC offers MasterCard and VISA credit cards. Most of MCC's revenues are derived from interest on revolving credit, interest on instalment products, annual fees and interchange income. Interest charged on outstanding balances ranges between 2.5% and 3.5% per month. Due to increased competition in the market, annual fees are often waived for the first year for new credit cardholders. Funding for MCC's day-to-day operations is currently provided internally generated funds sourced from the issuance of retail promissory notes, as well as from local and foreign banks. In May 2008, BSP approved MCC's bid to carry out quasi-banking functions, thereby allowing MCC to raise funds from the public to finance its expansion. MCC's major competitors in the credit card business in the Philippines are MasterCard and VISA products offered by large foreign financial institutions and local universal/commercial banks.

MCC has not undertaken any securitizations to date and all of its outstandings are stated on its balance sheet, although MCC may consider engaging in securitizations in the future if attractive funding and pricing is available.

International branch network and remittance services

The Bank has a network of seven strategically located branches outside of the Philippines, which, together with its representative offices, subsidiaries, and a network of correspondent banks, complements the domestic activities of the Group. The Bank's network outside the Philippines can be summarised as follows:

Branches	Representative offices	Subsidiaries
Taipei	Hong Kong	Hong Kong(2)
New York	Beijing	New York(3)
Shanghai		California(4)
Guam		Bahamas(5)
Seoul		Canada(6)
Pusan		Hawaii(7)
Tokyo and Osaka(1)		UK(8)
		Italy(9)
		Austria(10)
		Spain(11)
		Singapore(12)

Notes:

(1) Sub-branch

(2) First Metro International Investment Co. Ltd and MB Remittance Center, Ltd.

(3) Metro Remittance Center Inc. (USA)

(4) Metro Remittance Center (California), Inc.

(5) Metropolitan Bank (Bahamas) Ltd.

(6) Metro Remittance Center Inc. (Canada)

(7) MB Remittance Center (Hawaii), Ltd.

(8) Metro Remittance (UK), Limited

(9) Metro Remittance (Italia) S.p.A.

(10) MBTC Remittance GmbH – Vienna

(11) Metro Remittance Center, S.A. – Spain

(12) Metro Remittance Singapore Pte. Ltd.

The Bank's foreign branches and subsidiaries have been predominantly engaged in lending to local businesses, primarily those involved in trade finance. The Bank channels a substantial part of its import LCs through this international network. In addition, the Bank's international offices handle remittances for OFWs. The Bank's current strategy is to position its operations internationally to take advantage of trade flows with, and investment in, the Philippines and the presence of large Filipino populations overseas.

Each of the Bank's international branches conducts lending operations, both commercial and trade-related, in each of the jurisdictions in which it operates. As at 31 December 2008, the loan portfolio of the Bank's overseas branches, including commercial loans and trade finance, amounted to approximately ₱ 4.3 billion, compared to ₱2.4 billion as at 31 December 2007.

The Bank opened a full branch office in Shanghai in August 2001, and is to date the only Philippine bank to have done so. The Bank expects that its branch in Shanghai will provide credit facilities, other banking products and related financial services in the medium-term. The Bank believes that establishing a branch in Shanghai is of strategic importance to the development of its international operations and will extend the geographic scope of its remittance business. The branch in Shanghai is also a channel to receive and distribute remittances by overseas Chinese sending funds to China from countries where the Bank has branches and remittance offices. The subsidiaries in Europe are very active in this remittance business to China. To better serve its growing clientele, the Bank applied and was given approval for the establishment of a Sub-Branch in Shanghai's Puxi area. With the approval of the China Banking Regulatory Commission, Metrobank Shizhong was established as the main branch since it is strategically located at the Ground Floor of Metrobank Plaza Building along Yan'an Road in Shanghai Puxi area. The Metrobank Shanghai Shizhong Branch started operations in September 2008.

Taking advantage of the opportunities brought about by the liberalization of the financial sector in China, the Bank intends to establish a wholly-owned local bank subsidiary in the People's Republic of China. An approval from the BSP has been obtained, and the Bank submitted its application to the China Banking Regulatory Commission for the establishment of the local bank subsidiary.

Remittances

Reflecting the large market in OFW foreign currency remittances to the Philippines, the activities of the international branches of the Bank, together with those of its subsidiaries and its affiliates which act as remittance centers, are geared towards the handling of remittances to the Philippines, as well as supporting the trade and capital flows of the Philippines. Income is generated through the remittance business from an administration fee and, more significantly, from the foreign exchange margin. In addition, the Bank generates foreign currency holdings which can be utilized in meeting its import LC obligations. Remittances are distributed in the Philippines via the Bank's domestic branches and its ATM network. For the three years ended 31 December 2006, 2007 and 2008, the Bank provided remittance services for over, US$3.1 billion, US$3.5 billion and US$4.5 billion.

The Bank believes that it is the largest provider in the Philippines of remittance services for OFWs. The Bank has achieved this by utilizing its international network of branches, subsidiaries and affiliates and through its relationships with correspondent banks and other overseas providers of remittance services. The systems installed in the branches in Taiwan, Japan, Hong Kong, Korea and Guam enable real time remittances to be effected, whereas the systems installed in the United States enable cash to be drawn out in the Philippines against a same day remittance from the United States.

As a result of the liberalization of foreign exchange controls in the Philippines in the 1990s, the Bank continues to expand facilities for the handling of foreign currency remittances. The Bank intends to (i) expand its existing international presence by establishing additional remittance centers in Europe, the United States and Canada and further expanding its remittance services in the Middle East; (ii) rationalize its correspondent banking relationships (which number in excess of 900, most of which are involved in trade finance transactions); and (iii) enhance its technology in electronic remittance processing. In March 2005, the Bank expanded its remittance services in Europe by completing the acquisitions of three remittance centers in Austria, Italy and Spain. The Bank opened remittance centers in Vancouver and Toronto in Canada in 2006. In the United States, The Bank has acquired its Money Service Business ("MSB") license in the State of California and has inaugurated the first office of its new remittance center in California in Daly City. A second office was opened in Union City.

In addition to its branch and subsidiary network, the Bank has a number of remittance arrangements with banks in regions with high concentrations of OFWs, including South East Asia, North Asia Europe and the Middle East. The Bank currently has a joint remittance agreement with PT Bank Central Asia, the largest private bank in Indonesia, which allows selected international branches of the Bank to process remittances for overseas Indonesian workers, as well as an arrangement with the United Overseas Bank (Thai Public Company Limited) in Thailand related to overseas Thai workers. More recently in July 2008, the Bank has forged a tie-up with Hana Bank in Korea in a bid to grow its remittance market share in South Korea and to offer other products and services to Filipinos working in the Korean peninsula who are not covered by the Bank's branches in Seoul and Pusan. The Bank is currently looking to expand this type of relationship for other countries with large numbers of overseas workers and expects that this line of business will continue to increase the volume of remittances made by the Bank's international network.

The following table sets out the total volume and value of remittances made by the Bank's overseas operations in the periods indicated:

	For the year ended 31 December					
	2006		2007		2008	
	Volume	Value	Volume	Value	Volume	Value
		(US$ millions)		(US$ millions)		(US$ millions)
Remittances						
Foreign offices	1,873,667.0	1,177.7	1,879,684.0	1,209.8	2,029,304.0	1,370.9
Correspondent banks*.....	196,935.0	1,687.3	292,401.0	2,031.8	287,000.0	2.685.6
Other financial institutions	457,664.0	206.8	497,539.0	260.1	654,791.0	448.0
Total	2,528,266.0	3,071.87	2,669,624.0	3,501.7	2,971,095.0	4,504.6

** correspondent banks total include foreign currency checks (individual)*

The higher value per transaction of remittances by correspondent banks and other financial institutions, compared to the Bank's foreign branches, reflects the practice of large foreign corporations, such as shipping companies, making large lump sum remittances for multiple beneficiaries in the Philippines using their regular banking providers.

Investment banking

The Group's investment banking activities are principally undertaken through First Metro Investment Corporation ("First Metro" or "FMIC"), a 98.06%-owned subsidiary of the Bank. First Metro is a leading underwriter and arranger of loan syndications and issues of debt, equity and equity-linked securities in the Philippine domestic markets. First Metro is a leading trader of Government treasury securities and other fixed income securities which it trades for its own account and for its customers. It also participates in stock market trading for its customers through its wholly-owned subsidiary, First Metro Securities Brokerage Corporation ("First Metro Securities"), with proprietary trading being carried out by First Metro itself. First Metro also provides investment advisory services, primarily to business units within the Group.

First Metro was incorporated in 1972, making it one of the Philippines' longest-established investment houses. It has become the largest Philippine investment banking institution in terms of total assets, which amounted to ₱44.8 billion and ₱46.2 billion as at 31 December 2007 and 31 December 2008, respectively, compared to ₱39.1 billion as at 31 December 2006. In September 2000, First Metro merged with Solidbank Corporation, a Philippine commercial bank, thereby becoming the first PSE-listed investment house. First Metro currently has 116 employees.

In 2006, First Metro was named "Best Bond House in the Philippines" by Finance Asia Country Awards and the Ayala Corporation P5.8 billion perpetual hybrid transaction was recognized as the "Philippine Capital Markets Deal of the Year" by International Financing Review, the region's most authoritative capital markets magazine.

First Metro was recognized as one of the "10 Best Performing Government Securities Dealers in the Primary and Secondary Market" by the Bureau of the Treasury ("BTr") during its recent 111th anniversary celebration in 2008. First Metro was likewise awarded by the Department of Finance and BTr the "Plaque of Excellence" as the joint issue manager/coordinator for the ₱70.0 billion Retail Treasury Bonds 10th Tranche.

First Metro's core services are undertaken through its three strategic business units: the Investment Banking Group, Treasury Group and Investment Advisory Group:

Investment Banking Group: First Metro's Investment Banking Group conducts a range of investment banking activities such as underwriting, loan syndication, project finance and advisory for clients in the public and private sectors and participates in Government issues. Securities underwritten by First Metro are distributed to institutional investors and through the Bank's branch network to retail investors (who are not related to the Group) or held to support the Group's own trading position.

Treasury Group: First Metro's Treasury Group accounts for the majority of First Metro's income. The Treasury Group's remarkable performance in terms of volume of participation in BTR's auction of T-bills, FXTNs, RTBs and other special issuances like the Zero coupon bonds, Napocor, NDC bonds among others and active dealership in the secondary market earned FMIC a prestigious distinction by being one of the top 10 Government Securities Eligible Dealers in 2008. The Treasury Group's thrust is to have a continuous strong involvement in the Government securities market by engaging in the regular auctions of securities by the Bureau of Treasury and to have significant and cognizable participation in the secondary market. Treasury, through its distribution desks, sells Government securities, commercial papers and other fixed income instruments to an extensive client base consisting of bank treasuries, trusts, corporate banking groups, private banking groups, insurance companies, retirement funds, pre-need companies, mutual funds, thrift banks, rural banks, and corporate and retail investors. They also network with the Metrobank branches, offering alternative investment instruments to its large client base. For the three years ended 31 December 2006, 2007 and 2008, First Metro derived the majority of its income from its investment, trading, and distribution of its products.

Investment Advisory Group: First Metro's Investment Advisory Group provides investment advice to investment fund managers, including mutual funds managed by First Metro Asset Management, Inc., a subsidiary of FMIC. The aggregate value of all funds in respect of which First Metro's Investment Advisory Group provides investment advisory services was approximately ₱900.00 million as at end-February 2009.

In the years ended 31 December 2007 and 2008, First Metro's net income was ₱1.4 billion and ₱ 398.9 million, respectively, compared to ₱1.1 billion in the year ended 31 December 2006.

First Metro is also a holding company for the Group's interests in a number of additional companies. For a description of these subsidiaries and affiliates, see "Subsidiaries and Affiliates".

The table below sets forth selected financial ratios of First Metro derived from First Metro's audited financial statements as at and for each of the three years ended 31 December 2006, 2007 and 2008:

	As at and for the year ended 31 December		
	2006	2007	2008
	(audited)		
	(percentages)		
Return on assets[1]	2.5	3.3	2.5
Return on equity[2]	14.7	20.9	20.55
Non-performing loans to total receivables from customers[3]	0.1	0.1	0.1
Allowance for credit losses to non-performing loans[4]	33.9	33.0	37.3

Notes:

(1) Net income divided by average total assets for the period indicated.

(2) Net income divided by average total equity for the period indicated.

(3) Total non-performing loans divided by total loans.

(4) Allowance for credit losses divided by total non-performing loans.

Trust banking

The Group's trust banking business offers a wide range of funds and asset management products and services that addresses the needs of each of its target market segments which are the corporates/institutions, high net worth individuals, and retail investors. As at year-end December 2007 and 2008, the Group had approximately P141.8 billion and P148.2 billion in assets under management, respectively, compared to approximately P109.9 billion as at 31 December 2006. The Trust Banking Group has, according to Published Statements of Condition, delivered one of the highest growth rates in the industry market over the past five years.

For corporate clients, the Trust Banking Group offers employee benefit trust through its Corporate Stewardship Program and management of retirement, corporate, insurance, and pre-need funds. Metrobank is one of the largest fund managers for retirement funds in the country managing about 400 companies and a volume of over P20 Billion as of year-end December 2008. In the latest (95th) Watson Wyatt Survey of Investment Performance of Retirement Funds in the Philippines, Metrobank emerged as the best performing retirement fund manager for the last 3 and 5 years in two categories: All Trusteed Funds (Investment Managers Handling At Least 5 Funds in the Survey) and Trusteed Funds Managed with Full Discretion (Investment Managers Handling Less Than 5 Funds in the Survey).

For high net worth individuals, products and services offered include wealth management services through its Metrobank Exclusive Program and personal investments via trust or investment management arrangements. Retail products consist of a wide range of unit investment trust funds (UITFs) that cater to various investor needs and profiles. Its peso-denominated fixed income funds include Metrofund Starter, Metrofund Elite, Metrofund Peak Earner and Metro Invest Plus while peso balanced and equity funds are MetroCapital Growth Fund and Metro Equity Fund, respectively. Its dollar denominated fixed-income funds are the MetroDollar Money Market Fund, MetroDollar Philippine Liquid Fund, and MetroDollar Philippine Bond Fund. In 2008, Metrobank continued its top performance among the top four banks in the UITF Industry. In a weekly survey of performances, Metrobank ranked Number One in the year-on-year return on

investment (ROI) of Metrodollar Money Market Fund, Number Two for Metrodollar Phil. Liquid Fund, and Number One for year-end performance of all dollar and peso fixed-income funds. The Asset Magazine, a leading Hong Kong based financial publications and research company, cited for the third time, Metrobank's Foreign Currency Investments Department head as Top Most Astute Asian G3 Bond investor for the Philippines and for the second time the head of its Local Currency Investment Department was named Top Most Astute Local Currency Bond Investor for the Philippines.

The trust banking group also offers other fiduciary services such as transfer agency services for public offerings by Philippine corporations, life insurance trust, escrow, loan/facility/paying agency, safekeeping, and mortgage trust indenture services.

The Bank's trust business operations and investment decisions are duly supervised by its Trust Committee composed of its chairman, president, trust officer, two members of the Board of Directors. As mandated by governing regulations, the Trust Committee reports on a regular basis to the Bank's Board of Directors. Assets managed are invested in a portfolio of Government Securities, and deposit instruments of Philippine banks, fixed income securities, blue-chip and second-line equities listed on the Philippine Stock Exchange (PSE), U.S. dollar-denominated bonds issued by the Philippine government and deposit instruments, and U.S. Treasury Bills.

The trust banking group utilizes an integrated trust solution from Thomson Financial (now Thomson Reuters) that enables it to process information faster and provide customers with better access to such information. The system combines front-to-back office system integration and straight-through processing, as well as trade risk management and compliance checking.

As of year end December 2008, Metrobank trust banking group remains the third largest player in the industry.

Funding

Overview

The Bank's funding is provided principally by its deposit base of savings and demand and time deposits. The Bank also sources its funding requirements from general financings and, in December 2001, November 2002, October 2003, October 2007 and October 2008 issued US$100.0 million, US$125.0 million, US$200.0 million, ₱8.5 billion and ₱5.5 billion of subordinated notes, respectively, to improve its capital adequacy ratio. The December 2001, November 2002 and October 2003 subordinated notes have since been redeemed on December 2006, November 2007 and October 2008, respectively. The Bank also raised a landmark US$125.0 million and US$132.0 million from the issuance of Hybrid Tier 1 and common shares in February 2006 and October 2006 respectively. The Bank also uses interbank borrowings to cover temporary shortfalls in funding or for general balance sheet management.

The Bank believes that its branch network is important to attract deposits from the public. As at 31 December 2008, out of total deposits of ₱527.9 billion, approximately 61.2% were made with the Bank in the Metro Manila area, with 19.5% in other branches in Luzon, 11.9% in the Visayas Region, 6.9% in Mindanao and 0.5% in foreign branches.

Sources of Funding

The following table sets forth an analysis of the Bank's principal funding sources and the average cost of each funding source:

	As at 31 December					
	2006	Average Cost of Funding %	2007	Average Cost of Funding %	2008	Average Cost of Funding %
	(₱ millions, except percentages)					
Deposit by type:						
Demand	21,380	0.3	30,863	0.3	34,300	0.4
Savings	273,717	3.0	178,729	0.9	195,018	0.6
— Special UNISA[1]	109,075	5.1	345	4.5	144	2.7

	As at 31 December					
	2006	Average Cost of Funding %	2007	Average Cost of Funding %	2008	Average Cost of Funding %
	(₱ millions, except percentages)					
— Regular	164,642	0.9	178,384	0.7	194,874	0.6
Time	142,906	4.2	263,730	3.7	298,549	4.1
Total	438,003	3.1	473,322	2.3	527,868	2.4
Deposits by currency:						
Peso	329,327	3.4	379,174	2.2	411,881	2.5
Foreign	108,676	2.2	94,148	2.6	115,987	1.9
Total	438,003	3.1	473,322	2.3	527,868	2.4
Borrowings:						
Peso	514	9.1	8,720	6.5	14,348	7.0
Foreign (including subordinated debt)	16,982	8.1	21,987	7.3	2,462	5.9
Total	17,496	8.2	30,707	7.2	16,810	6.3

Note:

(1) UNISA is a higher-yield passbook savings account.

As at end-December 2007 and 2008, the Bank's total customer deposits, as a percentage of total borrowed funds, was 93.9% (₱473.3 billion) and 96.9% (₱527.9 billion), respectively. This decrease resulted from a number of factors, including a planned decrease in the amount of higher cost deposits and a substantial shift of customer funds to the Special Deposit Accounts offered by the BSP.

The Bank has expanded its sources of funds in order to diversify the scheduled maturities of deposits and maintain a funding portfolio that will enable it to achieve funding stability, retain liquidity and reduce the discrepancies between its loan and deposit maturities. Although the majority of the Bank's customer deposits are short-term, the Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a source of long-term funds.

As at 31 December 2008, 43.4% of the Bank's outstanding deposits were demand and savings deposits which can be withdrawn on request and without any prior notice from the customer.

The following table sets forth an analysis of the maturities of the deposit base of the Bank:

	As at 31 December		
	2006	2007	2008
	(₱ millions)		
Demand	21,379.9	30,862.9	34,300.9
Savings	273,717.7	178,729.3	195,018.3
Time deposits	142,905.8	263,729.6	298,548.6
— 90 days or less	114,888.8	207,603.3	233,301.8
— 91 – 180 days	16,864.0	26,472.4	37,714.6
— 181 days or more	11,153.0	29,653.9	27,532.2

	As at 31 December		
	2006	2007	2008
	(₱ millions)		
Total	438,003.4	473,321.8	527,867.8

Interbank deposits do not usually form a significant part of the Bank's funding base but, together with the Government bond market, are important in the management of the Bank's liquidity. In addition, the Bank receives long-term deposits from the Government and other entities, which it on-lends as funding for specialized programs sponsored by these entities. See "Principal Business Activities — Specialized lending".

The Bank primarily sources foreign exchange funds from its FCDU and from issuances of foreign currency certificates of deposits abroad. Other sources include capital stock and profits from operations overseas.

The BSP is a lender of last resort to the Philippine banking industry. The Bank has not had to resort to this facility but has managed its liquidity by participation in the interbank market in the Philippines.

The Bank is a member of the Philippine Deposit Insurance Corporation which insures all deposits up to a maximum of ₱250,000.00 per depositor. The Philippine Deposit Insurance Corporation is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions. The Series 2 Notes, like other subordinated indebtedness of the Bank, are not guaranteed or insured by the Philippine Deposit Insurance Corporation.

Liquidity

The purpose of liquidity management is to ensure that the Bank has available funds to meet its present and future financial obligations and to capitalize on business opportunities as they arise. Financial obligations arise from withdrawals of deposits, extensions of loans or other forms of credit, repayments on maturity of borrowed funds and operational needs. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a highly liquid asset portfolio, the securing of ample money market lines and the maintenance of repurchase facilities to pre-empt any unexpected liquidity situations.

In addition, the Bank can obtain funds at short notice by drawing upon established but non-committed lines of credit maintained with other banks, through overnight, seven-day or one-month borrowings in the Philippine interbank market.

Currently, Peso deposits and deposit substitute liabilities are subject to 8.0% statutory and 11.0% liquidity reserve requirements. At least 25.0% of the statutory reserve requirement must be deposited with the BSP. Deposits maintained by banks with the BSP up to 40.0% of the reserve requirement, excluding the liquidity reserve, shall be paid 4.0% interest per annum. The balance of 75.0% of the statutory reserve may be in one or a combination of deposits with the BSP, cash on hand and/or in the vault of the Bank and reserve eligible government securities. All of the required liquidity reserves may be held in the form of government securities declared by the BSP as liquidity reserve eligible. In connection with foreign currencies, the BSP requires banks to maintain asset cover of 100.0% for foreign currency liabilities, of which 30.0% must be in liquid assets.

Loan portfolio

As at end-December 2007 and 2008, the Group's total loan portfolio on a consolidated basis amounted to ₱300.8 billion and ₱348.9 billion, respectively, representing approximately 42.0% and 45.6% of its total assets as at those dates, respectively.

Whilst the Bank has increased the size of its consumer loan portfolio in recent years, a large majority of the Bank's loans are granted to Philippine corporates, in particular small- and medium-sized businesses. However, since March 2005, the Bank has reduced the number of loans granted to middle-market corporates and has instead focused on granting loans to large corporates. As at 31 December 2008, loans to large and middle-market corporates and to small- and mid-sized

businesses represented approximately 91.4% of the Bank's total outstanding loans, with the balance of 8.6% representing consumer loans, compared to approximately 92.5% and 7.5%, respectively, as at 31 December 2007.

As at 31 December 2008, the Bank had outstanding contingent accounts of ₱171.7 billion, consisting principally of accounts of the trust banking group, compared to ₱171.3 billion as at 31 December 2007. These trust accounts comprise property held by the Bank in a fiduciary and/or agency capacity for customers of the Bank and are classified as contingent liabilities of the Bank for the purpose of reporting off-balance sheet liabilities to the BSP.

Industry concentration

Historically, the manufacturing, wholesale and retail trade and real estate sectors have represented the largest sectors of the Group's loan portfolio, representing 23.3%, 16.6% and 16.3%, respectively, of the Group's loan portfolio as at 31 December 2008. The majority of lending to these sectors takes the form of working capital loans and trade financing.

The following table sets forth an analysis of the Group's loan portfolio by economic activity, as defined and categorised by the BSP:

	As at 31 December					
	2006	%	2007	%	2008	%
	(₱ millions, except for percentages)					
Manufacturing (various industries)	76,079.9	27.0	71,822.5	23.9	81,280.5	23.3
Wholesale and retail trade	51,031.4	18.1	46,244.9	15.4	57,953.2	16.6
Real estate, renting and business activities	52,237.9	18.5	53,722.0	17.9	56,749.2	16.3
Other community, social and personal activities	12,458.1	4.4	13,677.0	4.5	18,011.4	5.2
Private householders	30,168.0	10.7	34,326.0	11.4	51,370.3	14.7
Financial intermediaries	28,076.8	10.0	39,627.6	13.2	27,809.9	8.0
Transportation, storage and communication	11,663.1	4.1	17,091.1	5.7	24,570.1	7.0
Construction	5,274.9	1.9	4,943.6	1.6	5,069.2	1.5
Electricity, gas and water	4,044.5	1.4	5,882.7	2.0	8,423.8	2.4
Public administration and defense, compulsory social security	997.8	0.4	1,275.4	0.4	1,231.3	0.4
Agricultural, hunting and forestry	5,206.1	1.8	6,063.2	2.0	7,755.8	2.2
Hotel and restaurants	1,510.5	0.5	2,625.9	0.9	5,655.7	1.6
Mining and quarrying	359.7	0.1	501.8	0.2	800.9	0.2
Others[(1)]	2,846.7	1.1	2,965.0	0.9	2,183.4	0.6
Total	281,955.3	100.0%	300,768.7	100.0%	348,864.7	100.0%

As with many banks in the Philippines, the manufacturing sector is the principal focus of the Group's loan portfolio, accounting for 23.9% and 23.3% of the Group's total loan portfolio as at end-December 2007 and 2008, respectively. The majority of lending to the manufacturing sector takes the form of working capital loans and trade financing to manufacturers.

The Bank intends to continue to focus its lending activities on manufacturing companies with export prospects that remain viable under the current global economy, or which manufacture products that are in demand locally and are competitive vis-à-vis imported products. The Bank also plans to increase the proportion of its consumer lending as part of its strategy to diversify its lending business. See "Strategy – Expanding its core business – Consumer segment".

The Bank maintains a flexible policy towards its exposure to the Philippine economy, in principle avoiding exposure of more than 30.0% to a particular industrial sub-sector of the economy. The distribution of the Bank's loan portfolio by industry is also subject to seasonal fluctuations.

In addition, the Bank monitors its exposure to specific sectors of the economy to ensure compliance with specific pre-determined lending requirements imposed by law on all Philippine banks. The Bank must comply with legal requirements to make loans available to the agricultural sector and to small- and medium-sized enterprises. Mandatory credit allocation laws require all Philippine banks to make available 25.0% of their "loanable funds" to the agricultural sector in general, with 10.0% of such funds being made available exclusively to agrarian reform beneficiaries, and to allocate 8.0% of their loan portfolios to micro and small-sized, and 2.0% to medium-sized, enterprises. As at 31 December 2008, the Bank was in compliance with these requirements.

Maturity

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

	As at 31 December					
	2006	%	2007	%	2008	%
Due within one year	186.6	66.2	176.9	58.8	183.1	52.5
Due over one year to five years	50.5	17.9	55.5	18.5	72.7	20.8
Due over five years	44.9	15.9	68.4	22.7	93.1	26.7
Total	282.0	100.0%	300.8	100.0%	348.9	100.0%

Loans due within one year primarily consist of interbank loans, which are payable on demand, loans to corporations for working capital and loans to consumers for general use. Loans with a maturity of between one and five years consist primarily of term loans to corporations and businesses. Loans with a maturity of over five years consist primarily of mortgages advanced for property purchases.

Foreign currencies

As at 31 December 2008, 90.4% of the Group's loan portfolio was denominated in Pesos with 9.6% being denominated in foreign currency. The following table shows an analysis of the Group's loans by currency as at 31 December 2006, 2007 and 2008:

	As at 31 December					
	2006	%	2007	%	2008	%
	(₱ millions, except for percentages)					
Peso	258.8	91.8	279.5	92.9	315.3	90.4
Foreign Currency	23.2	8.2	21.3	7.1	33.6	9.6
Total	282.0	100.0%	300.8	100.0%	348.9	100.0 %

The Bank's foreign currency lending (in U.S. dollar terms) has decreased both as a proportion of the total loan portfolio and in absolute terms. This reflects the higher risks associated with U.S. dollar borrowing as a result of the general depreciation of the Peso in recent years. This has led many Philippine borrowers to source their funding exclusively in Peso. The Bank maintains its practice of extending foreign currency loans primarily to those customers who have an identifiable source of foreign currency earnings from which to repay the loans, and to importers who have authorisation from the BSP to purchase foreign currency to service their foreign currency obligations.

Interest rates

An important component of the Bank's asset and liability policy is its management of interest rate risk, which is the relationship between market interest rates and the Bank's interest rates on its interest-earning assets and interest-bearing liabilities. See "Risk Policy and Management — Interest rate risk".

The following table sets forth as at 31 December 2008 the total amount of loans with fixed interest rates and the total amount of loans with floating interest rates:

	Amount (₱ millions)
Fixed rate loans	60.1
Floating rate loans	288.8
Total	348.9

The lending market in the Philippines is principally based on floating rate lending. This is reflected in the Bank's loan portfolio, with 82.8% of the Bank's total loan portfolio being floating rate loans as at 31 December 2008, compared to 87.0% as at 31 December 2007. The Bank's floating rate loans reprice periodically by reference to the Philippine Treasury bill rate, typically by reference to a margin of between 1.0% and 3.0%. As a result, the Bank's exposure to interest rate fluctuations is significantly reduced.

Size and concentration of loans

The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0% of its net worth. As at end-December 2007 and 2008, the Bank's single borrower's limit was ₱12.3 billion and ₱11.3 billion, respectively. In determining whether the Bank meets the single borrower's limit of the BSP, the Bank includes exposure to related accounts (including accounts of subsidiaries and parent companies of the borrower). The Bank's single largest corporate borrower accounted for 3% of the Bank's outstanding loan portfolio as at 31 December 2007 and 31 December 2008. At year-end December 2007 and 2008, the Bank's ten largest performing borrowers (including groups of individuals and companies) accounted for ₱55.9 billion, or 18.6%, and ₱66.6 billion, or 24.1%, respectively, of the Bank's outstanding loan portfolio.

The following table sets forth a breakdown of total loans by principal amount as at 31 December 2008:

Principal amount	Percentage
Less than ₱1,000,000	18.2
₱1,000,000 to ₱2,500,000	8.5
₱2,500,000 to ₱5,000,000	6.4
More than ₱5,000,000	66.9
	100.0

Secured and unsecured loans

The following table sets forth the Group's secured and unsecured loans, divided according to type of collateral:

	As at 31 December					
	2006	%	2007	%	2008	%
	(₱ millions, except for percentages)					
Secured						
Real estate	91,525.2	32.5	92,501.1	30.8	83,438.2	23.9
Chattels	21,557.6	7.6	27,498.0	9.1	33,800.3	9.7
Deposit hold-out	12,732.3	4.5	9,464.1	3.1	8,479.7	2.4
Assignment of receivables	4,016.3	1.4	754.7	0.2	673.9	0.2
Securities	726.0	0.3	4,384.5	1.5	9,347.0	2.7
Standby letters of credit	8,732.3	3.1	9,272.5	3.1	5,822.6	1.7
Others	27,057.6	9.6	26,950.6	9.0	45,434.4	13.0
Unsecured	115,608.0	41.0	129,943.2	43.2	161,868.6	46.4
Total	281,955.3	100.0%	300,768.7	100.0%	348,864.7	100.0%

Secured loans are predominantly secured by real estate. The Bank's management expects this to continue to be the practice not only for itself but for the Philippine banking industry as a whole in the near future.

The Group's unsecured loans have been gradually increasing as a percentage of total loans. As at year-end 2007 and 2008, the Group's unsecured loans as a percentage of gross loans was 43.2% and 46.4%, respectively, compared to 41.0% as at 31 December 2006. This increase is a result of increased loans to large corporate borrowers and the increase in unsecured personal loans by PSBank.

In accordance with BSP guidelines, the Bank's policy is that the loans for the purchase of residential real estate properties with improvements or for owner occupancy carry a cap of 80.0% of the assessed value of the property provided as security for such loans. The maximum value of real estate loans against vacant lots, however, remains at 60.0% of the assessed value. The Bank generally uses its own assessors to value properties to be given as security. The Bank considers that these valuations are generally more conservative than market valuations. However, for restructured loans in excess of ₱5.0 million, the BSP requires that collateral should be appraised by an independent appraiser.

As at 31 December 2007 and 31 December 2008, the gross amount of the Group's investment properties were ₱37.1 billion and ₱32.3 billion, respectively, with the Group's allowance for impairment losses equalling ₱2.0 billion.

Loan classification and loan loss provisioning

The Group classifies its borrowers and assesses its asset quality based on its self-assessment procedures developed in accordance with guidelines published by the BSP. The Group performs self-assessment at least annually. The self-assessment process involves classifying borrowers based on their financial condition and then categorizing claims against borrowers in order of collection risk. Based on these classifications, the Group establishes allowances and discloses its problem loans using criteria required under BSP regulations.

In categorizing its loan portfolio, the Group follows the BSP's categorization of risk assets according to their risk profile. All risk assets, in particular the Group's loan portfolio, are either classified or unclassified. Those loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are unclassified. All other loan accounts, comprising those loan accounts which have a greater than normal risk, are classified as "especially mentioned", "sub-standard", "doubtful" or "loss" assets. Appropriate loan loss allowances are set up in accordance with the reserve requirement mandated by the BSP or the reserve requirement as derived per IAS 39 impairment testing.

The Bank adopts a qualitative analysis of its loan portfolio for the purposes of this risk classification, which is not solely dependent on the number of days the relevant loan is overdue. The Bank's review of its risk assets is conducted annually

in accordance with prescribed policy guidelines, in accordance with BSP categorization. The Bank's guidelines classify "especially mentioned" assets as those assets which have demonstrated minor deficiencies in credit quality but in respect of which repayments on the asset are up to date. The Bank's guidelines classify "sub-standard" assets as those which the Bank believes represent a substantial and unreasonable degree of risk to the Bank. "Especially mentioned" and "sub-standard" classifications may apply to current loans in accordance with BSP regulations. "Doubtful" assets are those in respect of which the Bank believes that collection in full, either according to their terms or through liquidation, is highly improbable and that substantial loss is probable. Assets which are considered impossible to collect or worthless are characterised as "loss" assets. Once a loan is classified in a particular category, the Bank records a loan loss allowance against such loan.

The following is a summary of the risk classification of the aggregate loan portfolio (as a percentage of total outstanding loans) and allowance for credit losses of the Bank on a stand-alone, non-consolidated basis, excluding the Loans Held by SPV as at years ending 31 December 2007 and 2008:

	As at 31 December			
	2007		2008	
	Amount	%	Amount	%
	(₱ billions, except percentages)			
Risk Classification:				
Especially mentioned	6,033.8	2.5	9,826.1	3.6
Substandard	11,734.1	4.8	12,539.5	4.5
Doubtful	1,018.7	0.4	1,081.3	0.4
Loss	2,747.4	1.1	2,209.1	0.8
Total Classified	21,534.0	8.8	25,656.0	9.3
Unclassified	221,207.3	91.2	251,186.2	90.7
Total	242,741.3	100.0%	276,842.2	100.0%
Allowance for credit losses;				
Classified	3,479.7	59.2	3,926.4	60.8
Unclassified	2,394.0	40.8	2,530.8	39.2
Total	5,873.7	100.0%	6,457.2	100.0%

The risk classification of the Bank's total loan portfolio and the Bank's allowance for credit losses in the above table do not include the risk classification or allowance for credit losses in relation to Loans Held by SPV. If Loans Held by SPV were included, as at end-December 2007 and 2008, the total of the Bank's classified loans would have been ₱33.5 billion and ₱36.5 billion, respectively, compared to ₱21.5 billion and ₱25.7 billion (as shown in the table above). In addition, if the Loans Held by SPV were included, as at end-December 2007 and 2008, the Bank's allowance for credit losses would have been ₱9.8 billion and ₱10.5 billion, respectively, compared to ₱5.9 billion and ₱6.4 billion (as shown in the table above).

Except for loans classified as sub-standard which are secured, where BSP guidelines allow the borrower's collateral position to be taken into account, the allowance for credit losses on other classified accounts (especially mentioned, sub-standard (unsecured), doubtful or loss) is based on the total principal balance outstanding without taking account of the value of any realizable collateral. Loans classified as "loss" assets are generally written-off by the Bank in accordance with BSP guidelines. These guidelines allow banks, upon approval by their board of directors, to write off loans, other credit accommodations, advances and other assets, regardless of amount, against allowance for credit losses (valuation reserves) or current operations as soon as they are satisfied that such loans, other credit accommodations, advances and

other assets are of no value. However, prior approval of the Monetary Board of the BSP is required to write off loans and advances to certain DOSRI.

In addition to making specific allowances for credit losses based on the risk classification of its loan portfolio, the Bank's allowances for credit losses also included general allowances.

As at end-December 2007 and 2008, the Bank's allowance for credit losses on receivables from customers on a stand-alone, non-consolidated basis was ₱5.9 billion and ₱6.4 billion, respectively, compared to ₱9.6 billion as at 31 December 2006. As a percentage of the Bank's non-performing loan portfolio, such loan loss allowance was 52.8% and 56.2% as at 31 December 2007 and 31 December 2008, respectively, compared to 61.1% as at 31 December 2006.

In addition to making an allowance for credit losses based on the above risk classifications, the substantial majority of classified loans are also recognized as non-performing loans by the Bank.

The table below sets forth details of the Group's non-performing loans, non-accruing loans, investment properties, non-performing assets (as described below), restructured loans and write-offs for loan losses as at and for the three years ended 31 December 2006, 2007 and 2008:

	As at and for the year ended 31 December		
	2006	2007	2008
	(₱ millions, except percentages)		
Non-performing loans (including Loans Held by SPV)	32,198.4	27,937.0	26,533.2
Total gross loans (including Loans Held by SPV)	294,621.5	312,737.6	359,678.4
Loans Held by SPV	12,666.1	11,968.9	10,813.7
Total non-performing loans to total gross loans (including Loans Held by SPV)	10.9%	8.9%	7.4%
Non-accruing loans (including Loans Held by SPV)	31,591.2	26,825.0	26,812.2
Non-accruing loans to total gross loans (including Loans Held by SPV)	10.7%	8.6%	7.4%
Investment Properties – gross	39,734.2	37,122.9	32,326.7
Non-performing assets (including Loans Held by SPV)[1]	71,932.6	64,842.1	58,860.0
Total assets (including Loans Held by SPV)	648,786.8	716,067.8	764,809.4
Non-performing assets to total assets (including Loans Held by SPV)	11.1%	9.1%	7.7%
Allowance for credit losses (total[2]) (including Loans Held by SPV)	16,033.5	14,921.5	15,853.9
Allowance for credit losses (loans) (including Loans Held by SPV)	13,930.7	12,895.4	13,895.2
Allowance for impairment losses (Investment Properties)	2,102.8	2,026.1	1,958.7
Allowance for credit losses (loans) to total non-performing loans (including Loans Held by	43.3%	46.2%	

	As at and for the year ended 31 December		
	2006	2007	2008
	(₱ millions, except percentages)		
SPV)			52.4
Allowance for credit losses (total[2]) to non-performing assets (including Loans Held by SPV)	22.3%	22.9%	26.9%
Total restructured loans[3]	14,058.4	12,636.3	11,865..3
Restructured loans to total gross loans (including Loans Held by SPV)	4.8%	4.0%	3.3%
Loans – written off	2,757.0	1,512.0	1,578.6

Notes:

(1) Non-performing assets comprise gross investment properties (investment properties and allowance for impairment losses (investment properties) and non-performing loans.

(2) Allowance for credit losses (total) comprises allowance for credit losses (loans), allowance for impairment losses (investment properties) and allowance for credit losses (Loans Held by SPV).

(3) Accumulated value of the Bank's restructured loans as at relevant date, net of loans repaid, written-off or foreclosed. Total restructured loans include loans which are undergoing restructuring and still classified as non-performing loans. As at 31 December 2008, such loans amounted to ₱5.3 billion, or 45.0%, of the total restructured loans.

Loans are classified as non-accruing (or past due) if (i) any repayment of principal at maturity or any scheduled payment of principal or interest due quarterly (or longer) is not made when due and (ii) in the case of any principal or interest due monthly, if the amount due is not paid and has remained outstanding for three months. In the case of (i), such loans are treated as non-performing if the payment is not made within a further 30 days. In the case of (ii), such loans are treated as non-performing upon the occurrence of the default in payment.

Loans which have been foreclosed or have been transferred to the Bank's investment properties account are no longer classified as "non-performing" assets.

In order to manage its loan portfolio and reduce its exposure to non-performing loans, the Bank's practice is to restructure those classified loans which it considers suitable for restructuring. The Bank restructures loans on a case-by-case basis. Restructuring methods used by the Bank have included extending the maturity of loans beyond their original maturity date and providing for rescheduled payments of principal consistent with the expected cash flows on the borrower in question. The Bank will also consider, in certain circumstances, receiving partial repayments of principal in respect of restructured loans. The Bank has also agreed to debt-for-equity swaps but rarely uses this as a restructuring solution.

In accordance with BSP guidelines, in general, non-performing loans which are successfully restructured are considered current and no longer non-performing following three consecutive payments of the required amortization of principal and/or interest. For restructured loans with capitalized interest and which are not fully secured, six consecutive payments are required for the loan to be considered performing. For the years ended 31 December 2007 and 2008, the Bank had a stand-alone unconsolidated portfolio of approximately ₱6.9 billion and ₱6.1 billion of restructured loans which were treated as performing, respectively.

In accordance with BSP guidelines, loans and other assets in litigation are classified as non-performing assets. The Bank's non-performing assets principally comprise investment properties and non-performing loans. The Bank has

established the Acquired Asset Management and Disposition Group, to actively manage and, where appropriate, sell its investment properties. The Metrobank Group has sold approximately ₱4.9 billion and ₱4.9 billion of investment properties for the years ended 31 December 2007 and 2008, respectively, compared to ₱1.6 billion for the year ended 31 December 2006.

The Bank plans to sell approximately ₱2.0 billion of investment properties by the end of 2009.

Sectoral analysis of non-performing loans

The following table sets forth, as at the dates indicated, the Bank's gross non-performing loans (on a stand-alone, non-consolidated basis) by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross non-performing loans:

	As at 31 December					
	2006	% of total	2007	% of total	2008	% of total
	(₱ millions, except percentages)					
Wholesale and retail trade	4,467.1	28.5	2,267.7	20.4	1,519.9	13.2
Manufacturing (various industries)	4.119.5	26.3	3,290.4	29.6	2,207.0	19.2
Real estate, renting and business activities	2,237.4	14.3	1,500.7	13.5	1,680.0	14.6
Other community, social and personal activities	402.4	2.6	233.4	2.1	138.5	1.2
Transportation, storage and communication	202.0	1.3	211.2	1.9	158.0	14
Others[1]	3,169.1	20.2	2,367.7	21.3	2,245.5	19.5
Hotel and restaurants	142.5	0.9	155.6	1.4	63.4	0.6
Construction	646.6	4.1	844.8	7.6	821.1	7.1
Agricultural, hunting and forestry	73.6	0.5	100.1	0.9	32.8	0.3
Electricity, gas and water	1.6	0.0	0	0	0.3	0
Financial intermediaries	195.7	1.3	144.5	1.3	2,629.6	22.9
Total	15,657.5	100.0%	11,116.1	100.0%	11,496.1	100.0%

Note:

(1) "Others" includes mining and quarrying, private households, services and public utilities and "others", according to categorisations by the BSP.

The information presented in the table above reflects a sectoral breakdown of the gross non-performing loans of the Bank on a non-consolidated basis. The Bank's non-consolidated portfolio of non-performing loans represented approximately 69.6% and 73.1% of the Bank's total consolidated portfolio of non-performing loans as at end-December 2007 and 2008, respectively.

Top ten non-performing loans

As at 31 December 2008, the Bank's ten largest non-performing loans accounted for 1.9% of its total loans to customers and 46.2% of its gross non-performing loans to customers. As at 31 December 2008, the Bank's exposure to its ten

largest non-performing loans ranged from ₱170.2 million to ₱1.8 billion and amounted to approximately ₱5.3 billion in the aggregate.

As at 31 December 2008, no individual borrower or group accounted for more than 20.8% of the Bank's total amount of non-performing loans.

Sale of non-performing loans

In April 2002, the Bank agreed to sell ₱16.3 billion in book value of non-performing loans to a special purpose vehicle (the "SPV") owned and controlled by foreign investors unrelated to the Bank. In return for the non-performing loans, the SPV paid consideration in the form of ₱5.0 billion in cash and ₱11.3 billion in the form of subordinated debt securities due on 27 February 2009.

In July 2005, the Bank agreed to sell five non-performing loans to the Avenue Capital Group for ₱2.2 billion, which represented a ₱1.4 billion, or 62.0%, discount on the book value of the non-performing loans. In November 2005, the Bank agreed to sell 46 non-performing loans by way of auction and raised ₱6.9 billion, which represented a ₱5.4 billion, or 78.0%, discount on the book value of the non-performing loans.

The above-mentioned sales are part of the Bank's strategy of reducing its exposure to non-performing loans. As at 31 December 2007 and 31 December 2008, the ratio of total non-performing loans to total loans was 4.6% and 4.1%, respectively, compared to 6.7% as at 31 December 2006.

Information technology

The Bank's strategy for providing better customer services, improving operations management and enhancing operating efficiency is dependent upon its IT systems. The Group generally uses off-the-shelf hardware and software to create complex applications and infrastructure that is needed to conduct its operations. This modular approach allows the Group to modify its systems to address changing needs and incorporate new technology as necessary. This approach also allows for the Group to make modifications and upgrades more cost effectively than if it employed a wholly proprietary systems architecture.

The Group continues to undertake initiatives to combine, to the extent permitted by BSP regulations, the operating platforms of entities within the Group, to develop common service systems and otherwise upgrade its centralized computing equipment, which now services all online requirements of the Bank's branches, the Bank's 24-hour point-of-sale facilities, the Bank's ATM operations, PSBank's online system, and Metrobank Card Corporation's credit card processing system. The following IT-based initiatives were undertaken from 2003 to-date:

- The Bank has implemented an improved deposit accounts opening system for its branches (Branch Automation System), which streamlines the account opening process, improves internal controls and ensures data quality for new account records.
- The Bank has implemented an in-house developed bills purchased system for tracking of check deposits purchased for immediate credit and the utilization of bills purchased lines.
- The Group has implemented a browser-based consumer loans origination system to further improve the processing and approval of consumer loan applications.
- The Group has implemented Triple DES to further secure VISA and MasterCard ATM transactions.
- The Group has implemented a facility which allows the display of customer signature images in any branch, enabling its branch personnel to verify, approve and process inter-branch transactions.
- The Bank completed the upgrade of the perimeter security and strengthened the internal security of the local and wide area network infrastructure with the implementation of access protection and intrusion prevention systems.
- The Bank acquired a customer analytics system, which provides reports based on the Bank's internally generated customer information along with publicly available sources that give the Bank's marketing and

sales divisions a better understanding of its customers' needs. This product gives all Bank personnel a consistent customer view and performs customer segmentation, thereby enhancing the Bank's cross-selling capabilities.

- The Bank implemented a leading document imaging solution to achieve greater operational efficiency and build a foundation for a paperless environment.
- The Bank recently upgraded its mainframe central processing unit and operating software. This provides the Bank and the Group companies using the mainframe computer, with available data processing capacity for substantial customer and transaction volumes growth in the next few years.
- The Bank archived data previously stored only on microfiche films on to its document imaging systems.
- The Bank implemented an online negative database system to be used primarily in the initial screening of loan/deposit applicants to provide branches and business units nationwide with adverse data, if any, on prospective customers.
- The Group implemented a browser-based integrated loan system for consumer loan products, including auto, multi-purpose and housing loans, which allows for faster processing of loans.
- The Group strengthened and improved the security of the network infrastructure using a Microsoft Active Directory-based system, which enables the Bank and its subsidiaries to have centralized management and administration of authorized users, security policies and organizational assets, such as computers, printers and network devices.
- The Bank strengthened its human resource capabilities by increasing the usage of off-the-shelf collaboration and groupware solutions.
- The Bank implemented a human resources management system in March 2007 to aid in the more effective administration and deployment of its people assets. This same HR solution will be implemented in the other Group companies.
- In the area of regulatory compliance and risk management, the Group has acquired an anti-money laundering system. Additionally a market risk management system and an asset-liability management system are currently being implemented.
- The Bank's treasury unit has upgraded its treasury system to take advantage of the superior features of the new system version. The new system will give the treasury unit the capability to handle greater transaction volumes and more complicated treasury transactions.
- The Bank recently launched a call center facility for remittance and electronic banking customers. This call center is outsourced to one of the companies in the Group.
- The Bank is fully supporting environmental concerns, and has launched Project Green, an initiative to cut down on electrical power consumption by consolidating computer servers and automating the shutdown of unattended desktop computers.
- The Bank is also currently implementing an upgrade of its IT network by increasing line speeds to branches. This upgrade should accommodate the new online application processes at its branches, as well as improve network response times.
- The Group is further upgrading its network security systems to ensure adequate protection against spyware, malware, adware and spam intrusions.
- The Bank recently adopted the Foreign Exchange Dealing System (FEDS) for recording and approving FX spot transactions at the branch level

- It also contracted the Alcatel Contact Center Solution for providing improved customer service for telephone-based interactions (specifically for its Corporate Banking Customer Care, Operations Group – International Operations Division and Information Technology Group Service Desks).

The Bank has a disaster recovery system as part of its business contingency recovery plan. This system allows it to mirror and duplicate all critical operations and resume business during disaster situations. The disaster recovery system is hosted in a third party location. The Bank installed a backup ATM switch in its disaster recovery center which will enable uninterrupted ATM use even when the primary computer center is inaccessible or rendered inoperable due to a disaster. In addition, the Bank implemented an online disk replication system between the Bank's corporate headquarters and the Bank's business recovery data centers, thereby minimising data loss during disaster scenarios and resulting in the capability to be online within three hours upon declaration of a disaster for all critical applications of the Bank. Aside from the online disk replication system, the Bank has acquired a virtual tape system to replace the slower conventional tape-based backup mechanisms.

The Bank has made efforts to upgrade its IT. However, the effectiveness of its new IT systems may be limited by the quality and timeliness of available data in the Philippines.

Competition

Competition in the Philippine financial services industry is increasing. Following the Asian economic crises in mid-1997 and resulting economic turmoil experienced by the Philippine economy, banks in the Philippines instituted more restrictive lending policies as they focused on asset quality and tried to reduce their exposure to non-performing loans. However, with the gradual recovery seen in the Philippine economy over the past three years, banks have refocused on using their increased liquidity to grow their corporate and consumer lending businesses.

Deregulation has also resulted in increased competition in the banking industry. Since 1994, a number of foreign banks, which have greater assets than the Bank, have been granted licenses to operate in the Philippines. These foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. However, increasingly, foreign banks have looked to further expand their presence in the Philippines.

For example, in early 2005, Citibank, N.A. acquired Insular Savings Bank, a thrift bank with 36 branches nationwide, 26 in Metro Manila and ten in Cebu, Davao and other large cities. HSBC Ltd. also has branches in the Philippines following its acquisition of PCI Savings Bank in 2000. These large foreign banks are disadvantaged in terms of sourcing funding due to their relatively small branch networks. However, they have worked to overcome this disadvantage by growing their domestic presence, and thus their deposit base, and by effectively using the swap markets to secure Pesos. All of these developments are expected to place additional pressure on margins on the Group's corporate and consumer lending businesses.

In the domestic market, prior to 2000, many banks expanded their networks in order to tap low-cost retail deposits following the relaxation of restrictions on branch banking. As a result, the Philippine banking market is relatively fragmented compared to other Asian countries, with the top six banks accounting for approximately 57.9% of total assets of commercial banks as at 31 December 2008. Since September 1998, the BSP has encouraged consolidation among banks in order to strengthen the Philippine banking system. Consolidation is expected to result in greater competition as a smaller group of 'top tier' banks compete for business.

The following table sets out a comparison, based on consolidated published statements of condition, of the five leading banks in the Philippines as at 31 December 2008:

Name	Market capitalization	Total capital	Total assets[1]	Customer Loans & Other receivables	Customer deposits	Number of branches[2]
	(₱ billions)					
MBT	38.9	58.8	758.5	351.2	585.8	552
BDO	46.6	56.4	808.0	461.1	634.3	663
BPI	102.2	61.1	658.4	341.3	541.2	688
LBP[3]	-	35.7	434.0	212.5	333.6	343
DBP[3]	-	35.1	290.9	137.5	93.1	77

Notes:

(1) Data provided above are consolidated amounts with the exception of LBP, where such numbers are presented on a non-consolidated basis.

(2) Branch count is parent bank only.

(3) Unlisted entities where no public market capitalization data is applicable.

Corporate banking

In corporate banking, the Bank competes principally on pricing (both for loans and deposits), existing relationships and the ability to provide specific solutions to customer needs. The Bank's principal competitors in corporate banking are the Bank of Philippine Islands ("BPI"), Citibank, N.A. ("Citi") and Banco de Oro ("BDO").

Consumer banking

The Philippines has many banks targeting consumer customers. In consumer banking, the Group competes principally on the extensiveness of its branch network, range of products offered and customer service. In consumer banking, the Group's strongest competitor is BPI and BDO, with other smaller banks also effectively competing based on pricing and terms. Foreign banks, such as Citibank, N.A. and HSBC, Ltd., are also becoming more active in this market.

RISK POLICY AND MANAGEMENT

Risk management framework

The Bank operates an integrated risk management system to address the risks faced in its banking activities, including market, credit and operational risks. It maintains a prudent and disciplined approach to risk taking by establishing a comprehensive set of risk management policies, processes and limits, and actively promoting a culture of sound risk management at all levels. Risk management is a well-established part of the bank's corporate governance structure.

The Board of Directors (BOD) has the ultimate responsibility for setting the overall risk tolerance or appetite within which the Bank conducts its activities. The BOD reviews the Bank's overall risk profile and significant risk exposures as well as the Bank's major risk policies, processes and controls. It plays an integral role in overseeing the effectiveness of risk management policies and processes.

The Bank has established executive committees and operating units to deal with risk policy and management. These committees and operating units are primarily responsible in establishing and maintaining robust risk management programs that allow the timely identification, assessment and management of risk issues in addition to the day-to-day risk management within the business. They are also responsible for defining risk taking policies and activities within the tolerances defined by the Board. The Bank's executive committees and operating units are as follows:

Risk Management Committee

The RMC is composed of members of the Board of Directors. It is responsible for the creation and oversight of the Bank's corporate risk policy. It recommends corporate policies and guidelines for risk measurement, management and reporting for approval by the Board of Directors. It also reviews and recommends for approval by the Board of Directors the system of risk limits. The RMC also evaluates the magnitude, direction and distribution of risks across the Bank.

Senior Executive Committee

The Senior Executive Committee (SrEXCOM), a board level committee, is composed of the Chairman, Vice Chairman, Director, President and Key officers of the Bank. It facilitates the deliberation of loan or credit proposals under the present authority limits of the EXCOM. It reviews the Bank's corporate plans, strategies and such policy matters that may be endorsed by the various committees for its approval. It also reviews major investment proposals other than those for purposes of maintaining the Bank's liquidity or secondary reserves and those requiring major capital expenditure.

Executive Committee

The Executive Committee (EXCOM), a board level committee, evaluates loan proposals in excess of the authority delegated to the Head Office Credit Committee. It reviews the Bank's corporate plans, strategies and such policy matters that may be endorsed by the various committees to the EXCOM for approval. It also reviews major investment proposals other than those for purpose of maintaining the Bank's liquidity or secondary reserves and those requiring major capital expenditures. The EXCOM is composed of the Chairman, the President and key executive officers of the Bank.

Asset and Liability Committee

The Asset and Liability Committee ("ALCO"), a bank level committee, is composed of the Chairman, the President, and certain Executive Vice-Presidents of the Bank. It meets daily to assess the financial condition of the Bank in the light of current economic factors to ensure that the Bank maintains adequate liquidity, sufficient capital and appropriate funding to meet all business requirements and comply with all regulatory requirements. In particular, ALCO manages the balance sheet and ensures that the Bank's strategies are in accordance with adequate liquidity, capital and diversified funding.

In reviewing compliance with existing Bank policies and formulating new strategies, ALCO's role is to ensure that the Bank's exposure to market and liquidity risks, are within prudent limits determined from time to time by the RMC to be acceptable.

Head Office Credit Committee

The Head Office Credit Committee (HOCreCom), a bank level committee, is responsible for the review and approval of credit applications which are beyond the authority of the President. The committee is chaired by the Head of National Branch Banking Sector and certain key officers of the Bank.

Information Technology Governance Committee

The Information Technology Governance Committee (IGC), a bank level committee, is chaired by the Head of Information Technology Group and certain senior management officers of the Bank. The President acts as the Adviser of the IGC. The committee is responsible in formulating the Bank's IT strategy and ensuring that alignment of the Bank's information technology infrastructure and investments to its overall strategy.

Emergency Management Committee

The Emergency Management Committee (EMCOM), a bank level committee, has been created to establish and implement major plans, policies, controls and decisions relative to the Bank's business continuity and disaster recovery program. It shall establish and assess emergency situations affecting the Bank and exercise overall supervision of the Bank's response to potential threats, crises and emergency situations including activation of emergency response teams. The committee shall review, approve and exercise oversight on the administration of the Business Continuity Plans of the Bank's operating and support units. It shall also approve and implement the Bank's workplace safety and health programs to ensure the well-being of the bank personnel and the Bank's continued operations. The committee is chaired by the Head of Operations Group and key senior management officers of the Bank. The Chairman and President act as Advisers of the committee.

Policies Committee

The Policies Committee (POLCOM), a bank level committee, ensures the continuing efficiency of bankwide operations through the conduct of a continuous review, evaluation and development of corporate policies and procedures affecting various phases of banking operations. It shall review and evaluate proposals initiated by the various operating units to improve and upgrade operations and recommend the same to the Executive Committee for approval. The committee is chaired by the head of Operations Group and composed of key senior management officers of the Bank.

Risk Management Group

The Risk Management Group ("RSK"), headed by the Chief Risk officer, is an independent business function within the Bank that ensures that adequate policies, processes and procedures are in place for the effective oversight of the bank's risk management practices. It recommends corporate policies and guidelines for risk measurement, management and reporting for approval by the executive committees and Board of Directors.

The Bank shall continue to upgrade its risk management governance, structure and processes in order to further improve its evaluation and monitoring of risks and returns and to produce sustainable revenue, reduce earnings volatility and increase shareholder value.

Credit risk

Credit risk is the risk that the counterparty in a transaction may fail to meet the terms of a contract or otherwise fail to perform as agreed. It arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Bank. Credit risks, on an account-by-account basis, are being evaluated and monitored by the Credit Group for both corporate borrowers and retail accounts. The Consumer Lending Group, on the other hand, keeps track of the consumer financing loans available via Metrohome and Metrocar credit facilities for individual borrowers. The RMC in conjunction with RSK is responsible for monitoring and evaluating the Bank's overall credit risk. The Bank manages its credit risk by evaluating the creditworthiness of counterparties, carrying out detailed cash flow analyses, setting appropriately structured credit facilities for counterparties and industry sectors, and obtaining collateral where appropriate. The Bank assigns a credit risk rating to each corporate counterparty after reviewing the financial condition of the counterparty, conducting an industry analysis and assessing the quality of the counterparty's management. The Bank's credit risk rating process is intended to provide management with:

- a means of dividing the credit portfolio into standard levels of quality;
- a process of uniformly assessing the entire corporate portfolio; and
- a means to determine a portfolio's potential for default and loss

Although the application of the Bank's credit approval systems includes a valuation of the collateral to be provided in the case of secured lending, the financial review carried out by the Bank focuses, in particular, on a detailed analysis of the current and projected cash flows of the borrower. The Bank uses an Internal Credit Risk Rating System on corporate accounts. This particular model used by the Bank is endorsed by the Bankers Association of the Philippines as it conforms with the minimum requirements of the BSP. Some enhancements were employed on the system using a wider range of factors that were more compatible to and could more effectively rate accounts under the Bank's loan portfolio structure. Internal credit risk rating is performed for all new loan applications as well as on existing loans on an annual basis.

The components of the Internal Credit Risk Rating System ("ICRRS") are (1) Borrower Risk Rating ("BRR"), (2) Facility Risk Factor ("FRF"), (3) Adjusted Borrower Risk Rating ("ABRR"), and (4) Composite Risk Rating ("CRR").

The BRR is an assessment of the credit worthiness of the borrower without considering the type or amount of the facility or security arrangement. In assigning BRR, major industry groups are given different ratings in calculating the borrower risk ratings, with market share as a key factor. The Corporate Banking Group and the Bank's other client management divisions are responsible for assessing the counterparty's management quality through regular meetings with their management. The Bank has a conservative approach to the granting of credit, especially in its use of collateral. It values collateral at below market values and only lends up to 60.0% of its appraised value. The BRR is derived by adding up the

net scores of the three segments of the credit risk rating system namely, financial, industry and management quality. The recommended credit rating factor weights are given below:

Segment	Description	Weight
Financial Factors	Evaluation of the financial condition and profitability of the borrower using financial ratios	40.0%
Industry Analysis	Analysis of the industry and its prospects, and the position of the company in the industry	30.0%
Management Quality	Ability of management to run business successfully	30.0%

FRF, on the other hand, is primarily determined through the terms of the facility and security arrangements in place. These risk factors could either be upgraded or downgraded based on the quality and position of the collateral. After which, the BRR and the FRF are combined to arrive at the ABRR. In cases where a borrower is entitled to multiple facilities, a CRR is computed to give proportional weights on the facilities measured to arrive at the most accurate default probability. The final internal credit risk rating grades and the mandatory reserves are specified below:

ICRRS Grades	Description	Mandatory Reserves
1	Excellent	—
2	Strong	—
3	Good	—
4	Satisfactory	—
5	Acceptable	—
6	Watchlist	—
7	Especially Mentioned	5.0%
8	Substandard	10.0 - 25.0%
9	Doubtful	50.0%
10	Loss	100.0%

More stringent and strict evaluation processes are implemented on accounts with lower credit ratings from 6 to 10. Other requirements that can mitigate risks such as marginal deposits, loan covenants, guarantees and sureties, insurance and bonds may be required. Higher pricing considerations and spreads can be imposed if the perceived risk is greater. Conversion of existing accommodations to amortising loans may also be considered. The Group also stringently sets ceilings on its exposures to these accounts. The counterparty's audited financial statements, collateral data information, as well as macroeconomic conditions and assumptions are all considered. Relationship managers and other client management officers initially rate qualified borrowers in accordance with the ICRRS. They perform the financial factor evaluation and conduct industry analysis and management quality evaluation. Credit Group on the other hand validates the rating results of applications for credit accommodations of qualified borrowers, based on actual account performance and BSP-prescribed criteria. The Group's Internal Audit Group ("AG"), on the other hand, reviews the ICRRS and its operations, including the operations of the credit risk control function annually.

The Bank has ongoing initiatives to eventually replace the ICRRS with statistical credit rating models and systems.

Actual credit exposures, limits, and asset quality are regularly monitored and controlled by the Bank's senior management. To augment credit quality monitoring by Senior Management, post-release credit reviews are conducted on the lending units and regular portfolio reporting is provided to the Bank's seniors. The Bank's policy runs consistent with BSP's prohibition of any bank incorporated in the Philippines from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0% of its net worth.

Credit approval and administration

The Bank has a uniform credit approval system that is applied throughout its lending operations. The credit approval process is initiated by the branch or marketing unit to which the application and preparation of loan proposals are made. Loan proposals emanating from the head office and Metro Manila branches / Branch Lending Units (BLUs) are referred to the credit group in the head office for credit investigation, collateral appraisal, financial analysis and evaluation. For middle market and branch accounts, the collateral appraisal and credit investigation functions are being handled by the Centralized Credit Units (CCUs) under the Credit Investigation & Appraisal Division while the financial evaluation, documentation preparation and review are handled by the Credit Support Units (CSUs)

PSBank and First Metro apply similar credit approval systems to those of the Bank.

As at 31 December 2008, the Bank's head office credit group had a total of 426 regular personnel, of whom 90 were involved in credit investigation and appraisal, 159 in credit evaluation and documentation, 29 in credit control and administration, 26 in centralized credit units, 8 in strategic support, and four in the Office of the Group. In May 2006, the centralization of the loan releasing and administration functions under Operations Group with the evaluation and documentation functions of the former Loans Processing Hubs ("LPH") being transferred to Credit Group was approved and implemented. The LPH was renamed as Credit Support Units with its main responsibilities the preparation and evaluation of the loan applications amounting to ₱5.0 million and below for branch accounts and evaluation of loan proposals over P5.0 million from the Branch Lending Group as well as the documentation and safekeeping of all collateral documents. Once evaluated, all proposals are referred to the appropriate approving authority for credit approval. Limits are aggregated per borrower and affiliated borrowers and, if exceeded, a loan proposal must be forwarded to the appropriate authority with the requisite credit approval level comprising a majority of the votes. A majority of the members of a particular committee must approve the credit. Each credit approval is valid for a period pertaining to the term of the proposed facility.

The following table sets forth the principal limits of approving authorities within the Bank as at 31 December 2008:

	Approval Ceilings by Type of Loan			
	Unsecured	**DBP**	**Real estate mortgage**	**Loan vs. Deposits (₱ and $)**
		(₱ in thousands)		
Branch Credit Committee…….....	---	200.00	500.00	2,500.00
NBBS Region Head/Branch Lending Center Head/Corporate Banking Group Deputy Head……...	300.00	20,000.00	10,000.00	20,000.00
CRG Designated Senior Officers…….....	1,000.00	30,000.00	20,000.00	25,000.00
National Branch Banking Sector Head/Branch Lending Group Head/Corporate Banking Group Head…….....	1,000.00	40,000.00	20,000.00	60,000.00
President……	3,000.00	60,000.00	25,000.00	75,000.00
Head Office, Downtown or Grace Park Center Credit Committee…….....	10,000.00	Over 60,000.00	60,000.00	100,000.00
Executive Committee……..	100,000.00	---	100,000.00	Over 100,000.00
Senior Executive Committee…….....	Over 100,000.00	---	Over 100,000.00	---

Once credit has been approved, examination as to completeness and validity of collateral and loan documents is conducted by CRG-Collateral and Documentation Dept. (for head office accounts) and the CSUs (for Branch and Branch Lending Group accounts). Loan releasing, booking and loan administration are being handled by the Domestic

Operations Division for head office accounts and the Branch Loans Operations Department for branch accounts. Approval media is returned to its originating marketing unit, branch and CSU for implementation and loan servicing. The Credit Group reviews individual accounts at least every year to ensure the quality of credit. In addition, the Bank's Non-performing Asset Committee has been reorganized to provide close monitoring of past due loan accounts below ₱20.0 million while the Senior Non-Performing Assets Committee was created to review and evaluate the Bank's past due loan accounts amounting to ₱20.0 million and above. Both committees evaluate and act on proposed collection programmes. The committees regularly meet once a week on separate sessions at the head office for the purpose of reviewing problem loans to be restructured. In order to improve its management of non-performing loans, the Bank has also established regional Non-performing Asset Committees which meet at least once a month to review non-performing loans.

In the ordinary course of business, the Bank and its subsidiaries enter into loans with affiliates and DOSRI. The Bank ensures that such loans are on fair, commercial terms. The General Banking Act and BSP regulations generally limit the amount of such loans to 100.0% of the Bank's combined capital accounts or 15.0% of the Bank's total loan portfolio, whichever is the lower. The amount of any loan to a director, officer or shareholder, of which 70.0% must be secured, may not exceed the aggregate amount of their deposits with the Bank and the book value of their investments in the Bank. The Bank is required to report the level of DOSRI loans to the BSP on a weekly basis. DOSRI loans accounted for approximately 3.6% and 2.7% of total loans as at 31 December 2007 and 31 December 2008, respectively.

The Board of Directors has the sole authority to approve loans to DOSRI. In addition, the Board of Directors must approve the restructuring of all DOSRI loans and non-DOSRI loans that were originally approved by the Executive Committee/Senior Executive Committee.

Liquidity risk

The ALCO is responsible for formulating the Bank's liquidity risk management policies, whereas the RSK is responsible for monitoring such risks. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds where short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding.

The Bank manages its liquidity risk with short-term funding requirements by holding sufficient liquid assets of appropriate quality. For the years ending 31 December 2007 and 2008, 64.0% and 56.2% of the Bank's total loan portfolio were in loans with remaining maturities of less than one year, respectively, compared with 69.3% as of 31 December 2006.

The Bank also maintains a significant proportion of liquid assets which are readily marketable. At end-December 2007 and 2008, the Bank had a total portfolio under Held for Trading of ₱33.7 billion and ₱19.3 billion, respectively. The Bank's trading and investment account includes securities issued by sovereign issuers (mostly Peso denominated Treasury bills and Fixed Rate Treasury Notes and USD denominated issues such as those issued by the Republic of the Philippines and US Treasuries) and USD denominated investment-grade issues. Other assets include amounts due from the BSP, due from other banks and interbank loans receivables and securities purchased under resale agreement. These accounted for 13.5%, 8.8% and 3.2%, respectively, of the Bank's total assets as at 31 December 2008, compared to 12.1%, 4.0% and 13.0% as at 31 December 2007. Deposits with banks were made on a short-term basis with almost all being available on demand or within one month.

The Treasury Group uses liquidity forecast models that estimate the Bank's cash flow needs based on the Bank's actual contractual obligations and under normal circumstances and extraordinary circumstances. RSK also prepares a weekly & monthly Maximum Cumulative Outflow ("MCO") report through the Bank's Data Warehouse. The report measures the bank's liquidity mismatch risk. At the end of 2008, the Bank implemented the automation of liquidity risk measurements for the banking book with the end objective of a daily MCO report. Its implementation for daily use is set for 2009.

Market risk

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign

currency exchange rates, commodity prices, equity prices and other market changes. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities, equities and derivatives transactions.

The Bank manages market risk by segregating its balance sheet into a trading book and a banking book. ALCO, chaired by the Bank's Chairman, is the senior review and decision-making body for the management of all related market risks. The risk limits are approved by the RMC, which is a sub-committee of the Board of Directors.

RSK serves under the RMC and performs daily market risk analyses to ensure compliance with the Bank's risk policies and makes recommendations based on such analyses.

The Treasury Group manages asset/liability risks arising from both normal banking operations and from trading operations in financial markets. The Treasury Group is assigned risk limits by the RMC.

In measuring the potential loss in its trading portfolio, the bank uses Value-at-Risk ("VaR") as a primary tool. The VaR method is a procedure for estimating portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period. In calculating VaR, the bank uses a 99.0% confidence level. This means that, statistically, losses on trading operations will exceed VaR on one out of 100 trading banking days. The validity of the VaR model is verified through back testing, which examines how frequently actual daily losses exceed daily VaR. Back testing for the year ended 31 December 2008 confirmed the continued reliability of the Bank's VaR model, as actual losses did not exceed VaR during that period. The Bank measures and monitors the VaR and profit and loss on a daily basis.

Interest rate risk

In managing the price risk on its assets and liabilities in the banking book, the bank follows a prudent policy so as to ensure that exposure to fluctuations in interest rates is kept within acceptable limits.

A substantial proportion of the Bank's total loan portfolio is for a term of less than one year, and the majority of the balance of its medium-term portfolio is on a floating rate basis. For the years ending 31 December 2007 and 2008, 96.5% and 95.0 %of the Bank's total loan portfolio comprised floating rate loans, respectively. As a result of these factors, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

The Bank maintains a large portion of its deposit base in short-term deposits. Except for a demand account product (Metrochecking Extra) which pays a rate of interest equal to that payable on regular savings accounts of the Bank, no interest is paid on demand accounts. As at 31 December 2007 and 2008, demand deposits accounted for 6.4% and 6.3 %, respectively, of total deposits. Rates on savings accounts, which constituted 35.2% and 34.7%, and time deposit accounts at 58.3% and 59.0% of total deposits as at 31 December 2007 and 2008, respectively, are set by different criteria. Time deposit account rates are set by reference to prevailing market rates.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of gap analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of its balance sheet positions. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or repricing dates, whichever is earlier. The difference in the amount of assets and liabilities maturing or being repriced in any time period category gives the Bank an indication of its exposure to the risk of potential changes in net interest income.

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, the Bank would be better positioned with a positive gap than being in a negative gap position. When this occurs, the Bank should be able to reprice or reinvest in higher yielding assets at an earlier rate than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a positive gap would lend to assets repricing earlier than one with a negative gap. This may restrain the growth of its net income or result in a decline in net interest income.

The following table sets forth the asset-liability gap position of the Bank on a consolidated basis as at 31 December 2008:

As at 31 December 2008
Asset Liability Gap Analysis

	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Total 1 year	Greater than 1 year	Total
				(₽ millions)			
Assets							
Total loans	12,567	98,342	21,553	5,442	249,904	19,119	269,023
Total investment	689	3,347	3,589	1,620	9,245	83,808	93,053
Placement	28,193	522	3,182	0	31,897	638	32,534
Other assets	1,408	0	0	0	1,408	77	1,485
Total assets	154,856	102,212	28,324	7,062	292,454	103,642	396,096
Liabilities and capital							
Customer deposits	202,211	78,101	8,677	5,457	294,446	4,247	298,693
Bills payable	2,738	420	476	2	3,635	51	3,686
Subordinated Debt	0	0	0	0	0	13,885	13,885
Other liabilities	1,485	0	0	0	1,485	0	1,485
Total liabilities	206,434	78,521	9,152	5,459	597,647	18,184	615,831
Capital							
Total liabilities and capital	206,434	78,521	9,152	5,459	597,647	18,184	615,831
Asset-liability gap	(51,578)	23,691	19,172	1,603	(305,193)	85,458	(219,735)

The Bank also monitors its exposure to fluctuations in interest rates by measuring the effect of interest rate movements on net interest income. This is done by modelling the impact of various changes in interest rates to the Bank's interest-related income and expenses.

The following table sets forth the impact of changes in interest rates on the Bank's net interest income for the year ended 24 December 2008.

As at 31 December 2008
Changes in interest rates
(in basis points)

	(100)	(50)	50	100
	(in ₽ millions, except percentages)			
Change on annualized net interest income	203.18	101.59	(101.59)	(203.18)
As a percentage of the Bank's net interest income for the year ended 31 December 2008 (annualized)	1.3 %	0.6 %	-0.6 %	-1.3%

Given the repricing position of the assets and liabilities of the Bank as at 24 December 2008, if interest rates decreased by 100 basis points, the expected annualized net interest income would increase by ₽203.18 million. If interest rates increased by 100 basis points, the annualized net interest income would decrease by ₽203.18 million. This sensitivity analysis is performed for risk management purposes and assumes no other changes in the repricing structure. Actual changes in net interest income will vary from the model.

Foreign currency risk

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU account. Foreign currency deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency assets with the foreign currency liabilities held through FCDUs. In addition, the BSP requires a 30.0% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, the Bank has additional foreign currency assets and liabilities in its foreign branch network. The Bank actively manages its foreign currency assets and liabilities.

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

Trading and investment securities; Equity holdings

The Bank engages in trading and arbitrage of securities. As at 31 December 2008, the value of trading and investment securities held by the Bank was ₱93.9 billion (net of allowance for impairment losses) and interest income on trading and investment securities for the covered period was ₱6.3 billion, compared to ₱4.6 billion and ₱5.1 billion for the year ended 31 December 2006 and 2007, respectively.

Derivatives

Banks in the Philippines require an expanded derivatives license in order to trade derivatives. In order to enable the Bank to capitalize on the opportunities to offer its clients additional banking products, it has applied to the BSP for such a license. Without such a license, the Bank is only authorized to enter into derivative transactions for hedging purposes. On 7 August 2008, the Bank received conditional approval from the BSP to engage in derivatives activities under a type 2 license to perform interest rate swaps, forward rate agreements, foreign currency swaps, FX forwards including non-deliverable forwards, and credit default swaps with underlying assets limited to sovereign and corporate bonds rated 'A' or its equivalent. However, the Bank shall be allowed to perform such transactions upon meeting certain BSP requirements.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, and external events. The Bank's operational risks are managed through bank-wide or line of business specific policies, procedures, and risk and control monitoring tools.

In keeping with the Bank's operational risk management governance structure, the lines of business are responsible for all the operational risks within the business. The Bank recognizes that each employee is a fundamental part of operational risk management since they are in the best position to identify and manage risk. The risk team supports the business by ensuring that people are given the right tools to help identify and manage operational risk while the AG conducts independent reviews of business and operating units´ adherence to risk policies.

The Bank maintains a database of risk events that enables it to analyze the cause of operational risks in order to implement risk mitigation measures. In addition, the Bank has developed risk tools to help business units identify, manage, monitor and summarize operational risk. One tool the business units utilize is a bank-wide self-assessment process, which is used to identify and evaluate the status of gross and residual risks; controls in place; and risk mitigation plans, if appropriate. Its goal is to identify and assess on a continuing basis all operational risks impacting the line of business due to changing market and business conditions.

Compliance and Legal risk

The compliance and legal roles are established functions that operate within the Bank's Operational risk Management Framework. The Bank's Compliance Division is responsible for planning, implementing and promoting the Bank's compliance measures. It administers the Bank's Compliance System to ensure (i) that the Bank complies with applicable laws and regulations or supervisory requirements and (ii) that banking operations are carried out in accordance with established policies of the Bank.

The legal units are in charge of legal affairs, including compliance with corporate and transactional law, as well as litigation. The legal units provide the various business units of the Bank with legal advice and support on the day-to-day legal issues that these business units are faced with.

Systems risk

The Bank has designed systems to minimize the threat of disruption and has implemented procedures for recovery. Key components of the Bank's system have established back-ups, including an independent back-up/business recovery site outside Makati. In addition, critical data is replicated. As a result, loss of part or all of any portion of the systems will not result in a total disruption in service and will allow restoration and recovery of these systems in the event of a malfunction. The Bank continuously monitors system security as well as its continuity of business to maintain readiness. The Bank introduces new systems and changes in a controlled manner and designs new systems to run in parallel with old ones, minimizing the risk of incompatibility.

System risk (i.e.; Technology risk) management is treated as a particular discipline within the Operational Risk Management Framework of the Bank.

Business Continuity Program

The Bank is committed to safeguarding the interests of its customers in the event of an emergency or significant business disruption. The Bank has developed a Business Continuity Program ("BCP") that can be activated in these events in order to quickly recover and resume business operations.

The Bank's business continuity program currently addresses: data back up and recovery of all mission critical systems; alternate communications with customers, employees, and regulators; and alternate physical locations to support general business operations.

The Bank is committed to periodically review, update and test its BCP under different scenarios in order to ensure the bank's readiness for probable business disruptions. Based on the results of the periodic BCP exercises, the Bank shall continuously improve its responses to business disruptions.

Although the tests may not be able to replicate the actual extreme conditions that the Bank may experience in a real emergency (e.g., control over the various entities that the Bank must rely upon in the event of an emergency, unpredictability of significant business disruption scenarios), the Bank shall continue enhancing its business continuity strategy to meet many different emergency situations.

INTERNAL AUDIT

The Bank's Internal Audit Group ("IAG") provides independent objective assurance and consulting services designed to add value and improve the Bank's operations. The group helps in achieving the Bank's objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes, including the information technology systems and applications. The scope of work of IAG is to determine whether the Bank's network of risk management, control, and governance processes, as designed and represented by Senior Management, is adequate and functioning in a manner that:

- risks are appropriately defined and managed;
- interaction with various governance groups occurs as needed;
- significant financial, managerial, and operating information is accurate, reliable and timely;
- employees' actions are in compliance with the Bank's code of conduct, policies, procedures, standards, and applicable laws and regulations;
- resources are acquired economically, used efficiently, and adequately protected;
- Bank's programs, plans, and objectives are achieved;

- quality and continuous improvement are fostered in the organization's control process; and
- significant legislative or regulatory issues with impact on the organization are recognized and addressed properly.

IAG is independent from the operating units and reports directly to the Board of Directors through the Audit Committee which is an extension of the Board of Directors that assists in fulfilling its statutory and fiduciary responsibilities to enhance shareholders' and other stakeholders' value and protect their interest through:

- effective oversight of internal and external audit functions;
- transparency and proper reporting;
- compliance with laws, rules and regulations, and code of conduct; and
- adequate and effective internal controls.

In compliance with regulations and good corporate governance, the members of the Audit Committee are appointed annually by the Board of Directors. The Audit Committee is composed of at least three Board Members, at least two of whom are independent directors, in compliance with existing regulations and good governance. At least one member has related audit experience. The Audit Committee meets regularly at least once a month to review internal audit reports, and meets with the External Auditor, Senior Management and Regulatory bodies as the need arises. The Audit Committee and Senior Management take all the necessary measures to provide appropriate resources and staffing that would enable IAG to achieve its objectives.

The internal audit activity is performed in accordance with the International Standards for the Professional Practice of Internal Auditing ("ISPPIA") and Code of Ethics. An independent Quality Assurance Review ("QAR") of the Bank's internal audit activity was conducted by a reputable professional firm that confirmed in the QAR report that the Bank's internal audit activities generally conform with the ISPPIA and Code of Ethics. To address certain QAR recommendations and related BSP regulations, the Bank formalized the implementation of Quality Assessment and Improvement Program and Monitoring Activities with the creation of Audit Quality Assurance Unit ("AQUA") tasked mainly to design and administer quality assurance reviews and process improvement of internal audit activities. A Branch Audit Monitoring Unit was also created to check on progress of engagements and ensure timely resolution of audit findings, particularly on the domestic branches and branch support units.

IAG employs the risk-based approach in its internal audit programmes and procedures. Using this approach, the nature, timing and scope of audit are based on the preliminary evaluation of the degree of risks and adequacy of risk management, mitigating factors and internal controls within each particular operating unit being audited.

Compliance of branches and other auditable units are measured in using an in-house developed risk-based audit rating system. The audit rating result has a significant impact on the key result areas ("KRA") of branches and other auditable units. Common and significant audit findings are elevated to Systems Division and the Policies Committee for the necessary evaluation and enhancement.

The IAG comprises professionals, mostly Certified Public Accountants ("CPA"). Passing the Philippine CPA licensure examination is one of the minimum qualification requirements for auditors. To further strengthen the Bank's internal audit capabilities and ensure continuing professional education, IAG embarked on bank-sponsored review/examination programs for global certifications such as Certified Internal Auditor ("CIA") and Certified Information Systems Auditor ("CISA"). Auditors involved in fact finding investigations are mostly Certified Fraud Examiners ("CFE") and Certified System Investigators ("CSI"). The Special Audit Department assists Management through fact-finding and investigation of fraud and irregularities, in close coordination with other units in the Group.

While the Bank has, in the past, been the subject of irregularities, profile of cases investigated by Special Audit Department show that internal fraud has significantly dropped mainly due to enhanced processes and higher level of risk awareness among the Bank's personnel. As a matter of policy and principle that the Bank does not tolerate any wrong doing by its employees, the Bank's Legal Services Department has filed the necessary legal action against the perpetrators.

2008 Highlights

For 2008, IAG generally covered auditable units (domestic branches, operating/support/specialized units, foreign branches/offices, and certain subsidiaries/related company) and various projects, particularly those relating to information technology (IT), defined in the approved business plan. IAG helped improve various Bank units' and subsidiaries' operational effectiveness and efficiency by providing recommendations toward process improvements, streamlining procedures, and enhancing controls to mitigate risks. IAG contributed to increased risk awareness as reflected in improved audit ratings, and to the enhancement of security controls in the upgrade of network and security set-up for internet banking and network administration. Network support was likewise improved through organization review. Vulnerability assessment and penetration testing were also performed to identify and address security threats.

On consulting services, IAG provided inputs on control issues prior to implementation of internal policies and procedures for adoption or amendment, Risk Management Framework and various product manuals; as well as pre-implementation enhancements of various IT projects.

IAG's AQUA was strengthened with the appointment of five (5) officers to administer quality assurance reviews and process improvement of internal audit activities. These activities remain relevant in preparing IAG for the next external quality assurance review as required by Standards and regulations.

IAG continues to support and encourage continuing professional development. For 2008, additional global certifications and professional accreditations were achieved, which include a Certified Internal Control Auditor (CICA), a rare Certified Anti-Money Laundering Specialist (CAMS), and an Accredited External Quality Assessor.

In compliance with Standards, IAG through the Chief Audit Executive, rendered a favorable overall assessment to the Audit Committee, Board of Directors and Senior Management regarding the adequacy and effectiveness of the Bank's risk management, corporate governance and internal control processes based on IAG's assurance and consulting activities. This overall assessment states, among others, that the scope and coverage are sufficient, comprehensive and risk-based, that Management is aware of its responsibility for internal control, and that there is no interference with the accomplishment of IAG's tasks and reporting of findings and other relevant information to the appropriate level of Management, Audit Committee and Board of Directors.

INSURANCE

The Group's policy is to adequately insure all of its properties against fire and other usual risks. The Group also maintains insurance for operational risks such as the loss of cash or securities through loss or theft, both through a programme of self-insurance and by obtaining insurance from third party providers. The Group does not have business interruption insurance covering loss of revenues in the event that its operations are affected by unexpected events. The Group also has a policy of requiring appropriate insurance coverage for any collateral provided by its customers.

The Group's insurance policies are subject to exclusions which are customary for insurance policies of the type held by the Bank, including those exclusions which relate to war and terrorism-related events.

The Group believes that its insurance policies as described above are appropriate for its business.

INTELLECTUAL PROPERTY

The Bank has pending applications for its intellectual property rights filed with the Intellectual Property Philippines Office in Makati City. Specifically, these are for its new corporate logo, various e-banking channels, home and car loans, a kiddie savings deposit, and cash management, and various remittance services. The Bank has not been the subject of any disputes relating to its intellectual property rights.

LEGAL PROCEEDINGS

The Bank is a party to various legal proceedings which arise in the ordinary course of its operations. None of such legal proceedings, either individually or in the aggregate, are expected to have a material adverse effect on the Bank or its consolidated financial condition.

In addition, the Bank, together with a number of other banks in the Philippines, has been challenged by the BIR with respect to a potential tax liability in connection with its practice of issuing passbooks for higher interest rate deposit accounts. There are four (4) tax cases involving the Bank on this issue. Two (2) of these cases are with the Supreme Court ("SC") and the other two (2) are with the Court of Tax Appeals ("CTA") *En Banc*. With respect to the two (2) cases with the SC, the Parent Company filed its manifestations to inform the Court of the existence of a supervening event subsequent to the judgments on appeal which would have a direct effect on the pending cases. The supervening event refers to the availment by the Parent Company of the Tax Amnesty Program under R.A. 9480. As regards one (1) case with the CTA, the Parent Company filed its Petition for Review to the CTA *En Banc* on 11 January 2008 seeking a review of the Resolution dated 13 December 2007. The Commissioner of Internal Revenue filed its Comment thereto in March 2008. The case was deemed withdrawn and considered closed and terminated as stated in the CTA Resolution dated 29 August 2008. The CTA said that the Bank has duly complied with the requirements for availing tax amnesty, pursuant to Sec 5 RA No. 9480. On the other case, the CTA issued a Resolution dated 28 March 2008 granting the Bank's Motion for Reconsideration of its Decision dated 30 October 2007. Pursuant to the said Resolution, the Parent Bank's tax deficiency was deemed extinguished given its availment of and compliance with the tax amnesty program. The BIR subsequently moved for a reconsideration of the Resolution dated 28 March 2008. The CTA affirmed its decision that the case has been closed and terminated subject to the provisions of R.A. 9480.

SUBSIDIARIES AND AFFILIATES

Subsidiaries

The following table sets out summary information in respect of the Bank's principal subsidiaries as at and for the year ended 31 December 2008:

				As at 31 December 2008 (un/audited) (in millions)			
Subsidiaries	Effective ownership	Activity	Currency	Issued capital stock(3)	Total assets	Total revenues	Net income (loss)
Philippine Savings Bank	76.0%	Savings Banking	₱	2,402.5	74,636.7	5,081.4	940.2
First Metro Investment Corporation	98.1%	Investment Banking, Holding Company	₱	4,208.7	46,200.6	2,861.5	398.9
First Metro Securities Brokerage Corp(1)	100.0%	Stock Brokerage	₱	130.0	282.5	39.8	3.5
Prima Ventures Development Corporation(1)	100.0%	Real Estate	₱	4.2	6.0	00.0	(0.1)
First Metro Travel, Inc. (First Metro Travelex Inc.)(1)	60.0%	Travel Agency	₱	50.0	82.2	23.7	(4.8)
FMIC Equities, Inc	100.0%	Holding Company	₱	3.1	3.2	0.2	0.1
PBC Capital Investment Corp	100.0%	Investment House	₱	300.0	580.4	(5.3)	(26.8)
First Metro Insurance Agency, Inc.	100.0%	Insurance Agency	₱	5.9	53.3	23.1	1.4
First Metro Insurance Brokers Corp	100.0%	Insurance Broker	₱	16.0	2.0	0.0	0.0
SBC Properties, Inc.	100.0%	Holding	₱				

Subsidiaries	Effective ownership	Activity	Currency	As at 31 December 2008 (un/audited) (in millions) Issued capital stock(3)	Total assets	Total revenues	Net income (loss)
		Company		130.0	186.1	3.5	2.0
First Metro Asset Management, Inc.	70.0%	Mgmt of Mutual Funds	₱	11.5	16.3	18.5	3.7
MBTC Technology, Inc.	100.0%	Computer Services	₱	200.0	375.3	351.0	(22.5)
Metro Remittance Center, Inc.	100.0%	OFW Remittances	US$	118.8	156.9	92.6	(16.4)
ORIX METRO Leasing and Finance Corporation	59.6%	Leasing, Finance	₱	611.0	7,187.0	1,099.2	252.1
Metrobank Card Corporation	60.0%	Credit Card Services	₱	1,000.0	19,880.8	4,754.7	834.5
Metropolitan Bank (Bahamas) Ltd.	100.0%	Holding Company	US$	237.6	1,441.5	87.4	97.1
MB Remittance Center, Ltd.-HK	100.0%	OFW Remittances	HK$	26.0	123.7	56.4	10.6
Metro Remittance (UK) Ltd.	100.0%	OFW Remittances	£	20.7	22.6	43.7	11.4
First Metro International Investment Co. Ltd. – HK	99.6%	Investments and deposit-taking	HK$	230.8	1,090.0	244.5	31.1
Metro Remittance Singapore Pte. Ltd.	100.0%	OFW Remittances	SGD	16.3	124.4	60.0	25.0
Metro Remittance (Italia), SpA	100.0%	€OFW Remittances	EURO	79.2	225.7	213.6	20.4
Metro Remittance Center, S.A. – Spain	100.0%	OFW Remittances	EURO	65.5	93.8	51.4	(1.0)
Metro Remittance GmbH-Vienna	100.0%	OFW Remittances	EURO	39.6	43.6	27.4	(0.7)
Metro Remittance Center (California), Inc.	100.0%	OFW Remittances	US$	93.4	151.1	10.1	(15.1)
Global Business Holdings, Inc.	44.8%(2)	Holding Company	₱	5,885.1	19,397.5	3,450.7	371.3
Data Serve, Inc.	100.0%	Computer Services	₱	62.5	64.9	2.7	1.5
Circa 2000 Homes, Inc.	100.0%	Real Estate	₱	837.2	1,312.5	(44.9)	(46.6)

Notes:

(1) First Metro Investment Corporation, directly and indirectly, holds the interests shown above in First Metro Securities, Prima Ventures Development Corporation, First Metro Travelex, Inc., and Multi-Currency FX Corporation. The financial information relating to First Metro includes its equity investment in those subsidiaries and its own affiliates.

(2) This figure represents the Bank's effective voting interest in Global Business Holdings, Inc.

(3) Foreign currency denominated amounts have been translated into Philippine Pesos using the Philippine Dealing System closing rate as at 31 December 2008.

Each of the Bank's subsidiaries listed above have been incorporated in the Philippines, other than First Metro International Investment Co., Ltd. ("First Metro International"), Metro Remittance Center, Inc., Metropolitan Bank (Bahamas) Ltd. and MB Remittance Center, Ltd. Set forth below is a brief description of the Bank's primary subsidiaries which have not been discussed under "Description of the Bank" thus far.

Philippine Savings Bank

PSBank, a subsidiary of the Bank, offers a range of retail and consumer banking products and services. PSBank is a savings bank authorized by the BSP to engage in savings and mortgage banking in the Philippines. PSBank was the first publicly-listed savings bank in the Philippines and, as at 31 December 2008, was the second largest savings bank in the country in terms of total deposits and total assets according to industry data. PSBank offers a wide range of products and services to the consumer market, principally to individuals, but also to small- and medium-sized businesses. For the years ended 31 December 2007 and 2008, PSBank had total assets of approximately ₱68.7 billion and ₱74.7 billion, respectively, total deposits of ₱57.8 billion and ₱61.7 billion, respectively, and a total loan portfolio of ₱39.4 billion and ₱45.7 billion, respectively. Its net income as at 31 December 2007 and 31 December 2008 was ₱1.0 billion and ₱940.2 million respectively, compared to ₱818.8 million for the year ended 31 December 2006.

PSBank's branch network is operated separately from the Bank's domestic network. However, to take advantage of the Bank's brand recognition, PSBank also includes the phrase "a subsidiary of Metrobank" in its logo. As at 31 December 2008, PSBank had a total of 164 branches, 97 of which were located in Metro Manila. PSBank plans to open 8 new branches by end-2009. To facilitate the establishment of new PSBank branches, the Bank has transferred excess branch licenses to PSBank. ATMs are installed in all of PSBank's branches. PSBank, like the Bank itself, is a member of BancNet, a consortium of 40 banks whose ATMs have been pooled for the common use of their respective customers.

PSBank offers a wide range of consumer banking products and services to its customers. Its deposit products and services include a number of demand, savings and time deposit accounts, denominated in both Peso and U.S. dollars. PSBank's range of consumer loan products includes loans for vehicle financing, home loans and personal loans. In particular, personal loans are marketed to employees of the Bank's corporate customers. PSBank's personal loans are offered either on the basis of payments being made directly by the borrower or, for employees of participating companies, by deduction of payments directly from the borrower's salary. Personal loans carry high interest rates, primarily due to the higher default rate in relation to these loans. Other services offered by PSBank include trust services, payment collection services, payroll services and other consumer banking services.

First Metro Investment Corporation

The Group's investment banking activities are principally undertaken through First Metro Investment Corporation ("First Metro" or "FMIC"), a 98.06%-owned subsidiary of the Bank. First Metro is a leading underwriter and arranger of loan syndications and issues of debt, equity and equity-linked securities in the Philippine domestic markets. First Metro is a leading trader of Government treasury securities and other fixed income securities which it trades for its own account and for its customers. It also participates in stock market trading for its customers through its wholly-owned subsidiary, First Metro Securities Brokerage Corporation ("First Metro Securities"), with proprietary trading being carried out by First Metro itself. First Metro also provides investment advisory services, primarily to business units within the Group.

First Metro was incorporated in 1972, making it one of the Philippines' longest-established investment houses. It has become the largest Philippine investment banking institution in terms of total assets, which amounted to ₱44.8 billion and ₱46.2 billion as at 31 December 2007 and 31 December 2008, respectively, compared to ₱39.1 billion as at 31 December 2006. In September 2000, First Metro merged with Solidbank Corporation, a Philippine commercial bank, thereby becoming the first PSE-listed investment house. First Metro currently has 116 employees.

First Metro Securities Brokerage Corporation

First Metro Securities is a stock brokerage company which undertakes securities trading activities for the Bank's customers. As at 31 December 2008, First Metro owned 100 % of First Metro Securities which owns 100 % of Multi-Currency FX Corporation.

Multi-Currency FX Corporation

Multi-Currency FX Corporation is a foreign exchange company which is 100% owned by First Metro Securities.

Prima Ventures Development Corporation

Prima Ventures Development Corporation is a real estate company which is 100 % owned by First Metro Investment Corp. registered with the Securities and Exchange Commission on 11 January 1979.

First Metro Travel, Inc.

First Metro Travel, Inc. (formerly First Metro Travelex, Inc.) provides travel and travel-related services in the Philippines. As at 31 December 2008, First Metro owned 60% of First Metro Travel, Inc. through Prima Ventures Development Corporation.

FMIC Equities, Inc.

A wholly-owned subsidiary of First Metro incorporated on November 9, 2001 whose main business is to acquire, invest in, own, control, use, lease, sell or otherwise dispose of any and all kinds of property, businesses and enterprises.

PBC Capital Investment Corporation

It was incorporated on 1 March 1996 and started commercial operations on 8 March 1996. It was a wholly-owned subsidiary of The Philippine Banking Corporation (PhilBank). In July 1999, FMIC acquired 60.0% of the outstanding capital stock of PBC Capital and the remaining 40.0% in July 2000, making PBC Capital a wholly-owned subsidiary of FMIC. Its main purpose is to perform basic investment banking activities such as equity and debt underwriting, loan arrangement and syndication, financial advisory services and other corporate finance work.

First Metro Insurance Agency

This subsidiary (formerly Gainsworth Insurance Agency, Inc) was incorporated to act as insurance agent for and on behalf of any domestic and/or foreign life or non-life insurance company or companies authorized to do business in the Philippines.

First Metro Insurance Brokers

This subsidiary was registered with the Securities and Exchange Commission on 21 August 1989 to engage in the business of insurance brokerage for life and/or non-life insurance. Along such lines as life, health, accident, fire and allied lines, motor, vehicle, casualty, surety and fidelity, marine cargo, comprehensive liability insurance and allied risks.

SBC Properties, Inc.

This company was incorporated on 27 June 1997 to serve as the property development company of the former Solidbank. It became a wholly-owned subsidiary of FMIC after the merger of FMIC with Solidbank.

First Metro Asset Management, Inc.

A majority owned (70.0%) subsidiary of FMIC which was incorporated on 21 April 2005 to manage, provide and render management and technical advice/services for partnerships, corporations and other entities.

MBTC Technology, Inc.

Metrobank Technology, Inc., a wholly-owned subsidiary of the Bank, provides IT services to the Bank and the Bank's subsidiaries, including PSBank and MCC. MBTC Technology's services include data processing, software development and IT consulting.

Metro Remittance Center, Inc. (USA)

Metro Remittance Center, Inc. ("MRCI"), a wholly-owned subsidiary of the Bank, was set up to facilitate the Bank's remittance services for Filipino communities in the United States. This subsidiary has branches in New York, Chicago and Guam.

ORIX METRO Leasing and Finance Corporation

ORIX METRO Leasing & Finance Corporation ("ORIX METRO"), a joint venture with ORIX Corporation of Japan. ORIX METRO and its 100.0% owned subsidiaries, ORIX Auto Leasing Philippines Corporation and ORIX Rental Corporation, are principally involved in both financial and operating leases of motor vehicles, various types of equipment for manufacturing, materials handling, medical, telecommunications, office and other assets catering mainly to corporations and also extend mortgage loans to small- and medium-sized entrepreneurs, particularly in provincial areas. ORIX METRO has a total branch network of 28 offices located in key cities throughout the country.

Metrobank Card Corporation

Metrobank Card Corporation ("MCC") was a wholly-owned subsidiary of the Bank established in August 1985. In October 2003, ANZ purchased 40.0% of the shares of MCC. Under the agreement between ANZ and the Bank, ANZ has agreed to contribute its expertise in running credit card businesses to MCC. The immediate past president of MCC and the newly appointed president, appointed in July 2007, are employees of ANZ, brought into the Group's credit card operations to help streamline, modernize and grow MCC's operations in its cards issuing and cards acquiring business lines. In addition, the senior officer in charge of MCC's merchant acquiring business is an ANZ employee, who worked within the merchant acquiring operations at ANZ prior to joining MCC in 2006. The rest of MCC's employees are locally hired. For the three years ended 31 December 2006, 2007 and 2008, the Group's credit card business had net income after tax of ₱653.6 million, ₱781.9 million and ₱834.5 million, respectively.

The current focus of the Group's credit card operations is continued growth in the number of profitable cardholders and the development of robust policies and procedures to support the development of its newly launched merchant acquiring business line.

Metropolitan Bank (Bahamas) Limited

Metropolitan Bank (Bahamas) Limited is a wholly-owned subsidiary of the Bank which was incorporated as a private limited company in the Commonwealth of the Bahamas and is licensed under The Banks and Trust Companies Regulation Act (as amended) to carry on international banking business.

MB Remittance Center, Ltd. (HK)

MB Remittance Center, Ltd. is a wholly-owned subsidiary of the Bank which was incorporated in Hong Kong in October 1994 and provides remittance services to OFWs in Hong Kong in conjunction with the Bank's own representative office and subsidiary in Hong Kong.

Metro Remittance (UK) Limited

Metro Remittance (UK) Limited, a wholly-owned subsidiary of the Bank, was set up to facilitate the Bank's remittance services for Filipino communities abroad. This subsidiary has its office in London.

First Metro International Investment Co. Ltd.

First Metro International is a deposit-taking investment house established in Hong Kong in 1972 which also provides loans to local businessmen. First Metro International is effectively 99.6% owned by the Bank (as at 31 December 2008, the Bank directly owned approximately 53.3%, with the balance being owned by Metropolitan Bank (Bahamas) Ltd. And FMIC, both wholly-owned subsidiaries of the Bank).

Metro Remittance Singapore Pte., Ltd.

Established in April 2004, this is a wholly owned remittance center conducting money-changing businesses and providing remittance services to Philippine nationals in Singapore. The Company started commercial operations on 12 November 2004.

Metro Remittance (Italia), S.p.A.,

Incorporated in 28 November 2002 and licensed by "Ufficio Italiano Dei Cambi" (Italian Office of Exchange) to perform payment and currency exchange brokerage services, the Bank acquired this company on 3 March 2005.

Its three offices in Rome, Milan and Bologna cater to remittances of overseas Filipinos and Chinese clients. It is currently one of the leading remittance business institutions in Italy.

Metro Remittance Center S.A. (Spain)

Established 1 March 2003 and licensed to operate in Madrid and Barcelona, this company was acquired by the Bank on 31 March 2005 to service Filipino and Chinese communities.

MBTC Remittance GmbH-Vienna (formerly MBTC Exchange Service, GmbH (Vienna))

This company was established on 28 March 2003 and acquired by the Bank on 3 March 2005. It caters to the money exchange needs of Filipinos composed mostly of medical professionals in Vienna and the neighbouring cities, as well as from Austrian residents. Despite its infancy in the business, it continues to eat into the market share of competitors in Austria.

Global Business Holdings, Inc.

Global Business Holdings, Inc., whose principal activity is the management of non-banking assets, is a holding company to Murant Global Corporation, an energy firm. As at 31 December 2008, the Bank had an effective voting interest of 44.8% in Global Business Holdings, Inc. (GBHI)

Data Serv, Inc.

This company's parent and ultimate holding company is the Bank. Its primary purpose is to market, sell, render, cater and furnish to clients electronic data processing or computer systems and services.

Circa 2000 Homes, Inc.

A wholly owned subsidiary incorporated on 29 January 1997 to engage in the business of home building and home development through the acquisitions of land and other assets, and the constructions, sale, lease of management of houses, apartments, townhouses, apartelles, residential condominiums, and other dwelling places.

Affiliates

The following table sets out summary information in respect of the Group's principal affiliates as at 31 December 2008:

				As at 31 December 2008 (un/audited) (in millions)			
Affiliates	Effective ownership	Activity	Currency	Issued capital stock(3)	Total assets	Total revenues	Net income (loss)
Aurora Towers, Inc.(1)	50.0 %	Real Estate	₱	36.8	12.4	0	(4.0)
Cathay International Resources Corp.	35.0 %	Holding Company	₱	500.0	1,845.0	111.2	13.6
Philippine AXA Life Insurance Corporation(1)	28.1%	Life Insurance	₱	215.7	30,746.2	7.645.3	152.2
Philippine Charter Insurance Corporation	33.3%	Non-life Insurance	₱	150.0	3,432.8	972.5	60.8
SMBC Metro Investment Corporation	30.0%	Investment	₱	600.0	846.5	81.1	43.9
Toyota Motor Philippines Corporation	30.0%	Motor Vehicle	₱	1,549.4	13,790.5	5,156.7	2,644.4

Affiliates	Effective ownership	Activity	Currency	As at 31 December 2008 (un/audited) (in millions) Issued capital stock(3)	Total assets	Total revenues	Net income (loss)
Toyota Financial Services (Philippines) Corporation ..	15.0 %	Manufacture Motor Vehicle Financing	₱	1,000.0	10,852.2	1,320.8	198.6
Northpine Land, Inc.	20.0%	Real Estate Developer	₱	1,224.6	1,660.5	274.4	39.4

Note:

(1) First Metro Investment Corporation holds the interests shown above in Aurora Towers Inc., Cathay International Resources Corp., and Philippine AXA, and Philippine Charter Insurance Corporation while Metrobank holds interests in SMBC Metro Investment Corporation, Toyota Motor Philippines Corporation, Toyota Financial Services Philippines Corporation, and Northpine Land, Inc. The financial information relating to the Bank and First Metro includes its equity investment in those subsidiaries and its own affiliates.

Set forth below is a brief description of the Group's principal affiliates which have not been discussed under "Description of the Bank" thus far.

Aurora Towers, Inc.

Aurora Towers, Inc. is a property venture of which First Metro owned 50.0% as at 31 December2008.

Cathay International Resources

This company is 35.0% owned by FMIC. Cathay International Resources, the owner of Cebu Plaza Hotel, was incorporated on 26 April 2005 primarily to acquire by purchase, exchange and use for investment or otherwise sell or transfer properties.

Philippine AXA Life Insurance Corporation

Philippine AXA is one of the top five participants in the life insurance industry. As at 31 December 2008, it is 28.1% owned by First Metro.

Philippine AXA seeks to provide support, care, advice and customized services that address clients' life insurance needs as they develop over time. In May 2003, Philippine AXA launched the first U.S. dollar-denominated variable life insurance plans in the country. These plans feature a basic life insurance plan plus the flexibility associated with investment instruments.

Philippine AXA's business has benefited from a change in business strategy and improved control measures. Bancassurance operations have benefited from the release of the BSP Circular No. 357 allowing life insurance companies to cross-sell their products through bank partners of which they are either affiliates or subsidiaries.

Philippine Charter Insurance Corporation

Philippine Charter Insurance Corporation is a leading provider of non-life insurance in the Philippines. As at 31, December 2008, Philippine Charter Insurance Corporation was 33.33% owned by First Metro, 23.33% by Tytana and 36.67% by Global Business Holdings, Inc.

Toyota Motor Philippines Corporation

Toyota Motor Philippines Corporation ("TMP") is primarily engaged in the manufacture of Toyota passenger cars and commercial vehicles and the wholesale of Toyota parts and accessories. TMP was, as at 31 December 2008, 30.0% owned by the Bank and 34.0% owned by Toyota Motor Corporation, with the balance owned by Mitsui & Co., Ltd. and other investors.

Toyota Financial Services (Philippines) Corporation

In October 2002, the Bank and Toyota Financial Services Corporation established a joint venture financing business for Toyota vehicles, in which the Bank has a 34.0% interest. Toyota Financial Services (Philippines) Corporation extends credit facilities to customers of Toyota vehicle dealers in the Philippines and to commercial or industrial enterprises, including distributors and dealers, who are engaged in the distribution of Toyota vehicles in the Philippines. In June 2008, Toyota Financial Services (Philippines) Corporation secured regulatory approval for its venture into quasi-banking, allowing the Company to raise funds from the public for re-lending.

Northpine Land, Inc (formerly Jardine Land, Inc.)

The Group holds a 20.0% interest in Northpine Land, which was formerly Jardine Land, Inc., which was established in April 1996 to acquire real estate and develop middle-income housing in the Philippines. The Bank's partners in Northpine Land, Inc. include Hong Kong Land (PPI) BV, San Miguel Properties Philippines, Inc., and Equitable PCI Bank, Inc. The Securities and Exchange Commission approved the change in corporate name from Jardine Land, Inc. to Northpine Land, Inc. on 29 August 2006.

METROBANK FOUNDATION

On 8 January 1979, the Metrobank Foundation ("Foundation") was established by the Bank to contribute to social development efforts of the national government. As at 31 December 2008, the Foundation held approximately 0.8% of the ordinary shares of the Bank. The current advisory board of the Foundation includes former president Corazon C. Aquino, president Gloria Macapagal-Arroyo (represented by Diosdado Macapagal, Jr.), former Prime Minister Cesar Virata, former Supreme Court Chief Justice Antonio Panganiban, Washington SyCip and others. The Foundation fosters a culture of excellence by funding and implementing programs in education, health services and the visual arts in the Philippines, primarily by honoring outstanding members of key professions, including teachers, artists, police and military personnel and blue-collar workers. The Foundation also provides scholarships for intellectually-gifted and disadvantaged students and provides grants in support of noteworthy programs in education, health care and the arts, among others. The Foundation also manages and helps operate the Manila Doctors Hospital and its educational arm, the Manila Doctors College, as part of its advocacy for excellent health care services.

MANAGEMENT, EMPLOYEES AND SHAREHOLDERS

MANAGEMENT

The Board of Directors is the body ultimately responsible for the management of the Bank. Directors are elected by the shareholders for a period of one year. There are no restrictions on re-election. The Chairman has a casting vote in resolutions of the Board of Directors which must be passed by majority vote. The senior executive officers carry out the day-to-day operations of the Bank under the direction of the Board of Directors.

The Bank's directors as at 31 December 2008 are as follows:

Name	Position
Dr. George S.K. Ty	Chairman, Metrobank Group
Antonio S. Abacan, Jr.	Chairman of the Board
Francisco C. Sebastian	Vice Chairman of the Board
Arthur Ty	Director and President
Renato C. Valencia	Independent Director
Remedios L. Macalincag	Independent Director
Valentin A. Araneta	Independent Director
Henry M. Sun	Director
Edmund A. Go	Director
Fabian S. Dee	Director
Carlos A. Pedrosa	Director
Alfred V. Ty	Corporate Secretary
Angelica H. Lavares	Assistant Corporate Secretary

Dr. George S.K. Ty has served as the Chairman of the Bank from 1975 to 2006. Dr. Ty graduated from the University of Santo Tomas. He is the founder of Wellington Flour Mills and the Bank. He is concurrently Chairman of the Board of the Metrobank Foundation, Inc., Toyota Motor Philippines Corporation and Toyota Autoparts Philippines Corporation.

Antonio S. Abacan, Jr. served as the President of the Bank from 1992 to 2006 and became Chairman of the Board in 2006. Mr. Abacan finished his Bachelor of Science in Business Administration degree at Mapua Institute of Technology. He was the President and a Director of PSBank from 1988 to 1992 and Unibancard Corporation from 1988 to 1991. He is concurrently Chairman of the Board of First Metro, Circa 2000 Homes, Inc., and Toyota Financial Services and Honorary Chairman and Director of MBTC Technology, Inc.

Francisco C. Sebastian became Vice Chairman in 2006. He earned his AB Economic degree, cum laude from the Ateneo de Manila University in 1975. He is the President of First Metro and has served in that capacity since 1997. Mr. Sebastian is currently also President of IFS Philippines, Inc., which renders business consultancy and financial advisory services to Philippine companies.

Arthur Ty became President in 2006. He headed the Bank's Consumer Lending Group from 2000 to 2004, and served as a Vice-Chairman of the Bank from 2004 to 2006. He is currently a director of MCC and the Vice-Chairman of PSBank. He is the Chairman of MBTC Technology, Inc.

Renato C. Valencia finished his Masters in Business Management at the Asian Institute of Management. He was the President and CEO of the Social Security System and Director of Meralco, Far East Bank and Trust Company, Philex

Gold Inc., Makati Stock Exchange and Philippine Central Depository, Inc. He is presently the Vice Chairman of Network Holdings, Inc. He is an independent director and is currently the Chairman of the Audit Committee.

Remedios L. Macalincag was elected as an independent director in 2004. She previously served as Chairman of LGU Guarantee Corporation and was concurrently President and CEO of the Development Bank of the Philippines. Ms. Macalincag also served as an Undersecretary for the Department of Finance, as well as the National Treasurer of the Bureau of Treasury.

Valentin A. Araneta is an independent director elected in 2004. He is Chairman of the Island Merchants Corporation (a Nestlé distribution company in Negros Occidental) and a Member and Treasurer of the University of St. La Salle in Bacolod City. Between 2000 to 2003, he served as President and CEO of Rizal Commercial Banking Corporation.

Henry M. Sun served as a Senior Executive Vice-President of the Bank from 2001 to 2006. He was the former Chairman of Global Bank and is a member of the Advisory Board of First Metro International. He is now President of Philippine Charter Insurance Corporation.

Edmund A. Go was Senior Executive Vice-President and Head of Treasury Group from 2001 to 2007. He was EVP of Solidbank from 1998 to 2000. He was Vice-President of Citibank from 1984 to 1998.

Fabian S. Dee became a director effective 1 October 2007. He is also an Executive Vice-President and head of the Bank's National Branch Banking Sector. He is also the Chairman of Metrobank Card Corporation.

Carlos A. Pedrosa was former Executive Vice President and Director of the Bank until 1992. He took on the presidency of Pilipinas Bank from 1993 to 1997, and then joined Toyota Motor Philippines Corporation as its Vice Chairman from 1997 to 2003. Mr. Pedrosa re-joined the Board last September 2008.

Alfred V. Ty was appointed as the Bank's Corporate Secretary in 2002. He is also Vice-Chairman of Toyota Motor Philippines, Secretary of Metrobank Foundation, and President of Federal Land, Inc.

Angelica H. Lavares became an Assistant Corporate Secretary effective 1 October 2007. She is also the Bank's Compliance Officer with the rank of Senior Vice-President.

As part of its increasing focus on corporate governance, the Bank established its Audit Committee in 1988, which meets monthly and on an ad hoc basis as circumstances require. The principal responsibilities of the Audit Committee are to monitor the accounting and financial reporting practices of the Bank, to ensure the adequacy of the Bank's administrative, operating and internal accounting controls and to assist the Board of Directors in fulfilling its statutory and fiduciary responsibilities in connection with its management of the Bank.

The Audit Committee is chaired by Mr. Renato C. Valencia. Its other members comprise Ms. Remedios Macalincag, Mr. Angelito M. Villanueva, Atty. Cornelio Gison, a member of the Board of Advisers, and an ex officio member, Mr. Edgardo M. Herrerra, who is a member of the Bank's senior management. The Chairman of the Bank, Mr. Abacan, acts as an adviser to the Audit Committee. Other members of the Bank's management also attend.

In addition, the Bank has a Board of Advisers whose role is to advise the Board of Directors on matters of policy and strategy. Its members, together with brief details of their main activities outside the Bank's Board of Advisers, are as follows:

Name		Other responsibilities
Fidel V. Ramos	Senior Adviser	Former Philippine President
Washington SyCip[(1)]	Senior Adviser	Founder, The SGV Group; Chairman of the Asian Institute of Management
Artemio V. Panganiban	Senior Adviser	Former Philippine Supreme Court Chief Justice
David K.P. Li	Senior Adviser	Chairman & CEO, Bank of East Asia, Ltd. Hong Kong

Dr. Placido L. Mapa, Jr.	Chairman Board of Advisers	President of Metrobank Foundation, former Vice Chairman, Metrobank
James Go	Vice-Chairman of Board of Advisers	Former Executive Director, Metrobank; Chairman, Toyota Cubao, Inc.; Vice-Chairman, Metrobank Foundation, Inc.
Gabriel Chua	Vice-Chairman of Board of Advisers	President, Solid State Multi-Products
Pascual M. Garcia III	Adviser	President, PSBank
Tan Tian Siong	Adviser	President, National Paper Products and Printing Corporation; EVP, Federation of Filipino-Chinese Chambers of Commerce & Industry
Cornelio C. Gison	Adviser	Former Undersecretary in the Department of Finance; former acting Commissioner of the BIR
Ricardo V. Puno, Jr.	Adviser	Senior Partner, Puno & Puno Law Offices; President, Philippine Life Foundation, Inc., Trustee, De La Salle University — Angelo King Institute for Economics and Business Studies
Enrique Cheng	Adviser	Chairman, Landmark Corporation; Director, Philippine Airlines
Charles Chueng	Adviser	Vice Chairman, First Metro International Investment Corporation
Vicente R. Cuna, Jr.	Adviser	Director, SMBC Metro Investment Corp.
Robert Juanchito Dispo	Adviser	Executive Vice President, First Metro Investment Corporation

Note:

(1) Mr. SyCip is the former Chairman of The SGV Group, which includes SyCip Gorres Velayo & Co., the Bank's independent auditors.

The aggregate compensation paid by the Bank to directors and principal senior executive officers for the years ended 31 December 2007 and 2008 was ₱147.0 million and ₱176.1 million, respectively.

The aggregate compensation paid by the Bank to its Advisers for the years ended 31 December 2007 and 2008 was ₱9.8 million and ₱9.4 million respectively.

The following table shows the shareholdings of each Director and principal senior executive officer of the Bank as at 31 December 2008:

Name of Directors and Principal Senior Executive Officers	Number of Shares	% of Total Shares
Dr. George S.K. Ty	8,291,165	0.459%
Antonio S. Abacan, Jr.	9,025	0.000
Francisco C. Sebastian	600	0.000
Arthur Ty	6,300,000	0.349

Name of Directors and Principal Senior Executive Officers	Number of Shares	% of Total Shares
Henry M. Sun	55	0.000
Renato C. Valencia	605	0.000
Valentin A. Araneta	1,000	0.000
Remedios L. Macalincag	800	0.000
Edmund A. Go	100	0.000
Dennis G. Suico	-.	-
Fabian S. Dee	500	0.000
Carlos A. Pedrosa	2,240	0.000
Carmelita R. Araneta	-	-
Melinda C. Ching	-	-
Vicente R. Cuna, Jr.	-	-
Joshua E. Naing	-	-
Aniceto M. Sobrepena	5,500	0.000
Josefina E. Sulit	-	-
Fernand Antonio A. Tansingco	-	-
Vivian L. Tiu	-	-
Bernardito M. Lapuz	-	-
Edgardo M. Herrera	-	-
Benedicto C. Legaspi, Jr.	-	-
Total	14,611,590	0.808%

EMPLOYEES

As at 31 December 2008, the Bank employed a total of 9,047 people, 1313 of whom were engaged in a professional managerial capacity and classified as Bank officers.

All of the Bank's 6,195 rank and file employees, other than those expressly excluded under the collective negotiating agreement, are represented by the Metropolitan Bank & Trust Company Employees Union (the "Union"), which is affiliated with the Associated Labor Union — Trade Union Congress of the Philippines. The Bank successfully concluded a new Collective Bargaining Agreement for 2007-2009, where it granted a salary increase of ₱1,700.00 effective 1 January 2007 for the 3 covered years. These increases have considered industry developments and continue to ensure that its employees are properly remunerated.

The Bank has not suffered any strikes since 1989 and the management of the Bank considers its relations with its employees and the Union to be good.

As at 31 December 2008, the average age of the Bank's officers and employees is 33.6 years, and the average Bank-wide tenure is 8.3 years. The mandatory retirement age for the Bank is 55 years or on completion of 30 years of service, whichever is earlier.

The aggregate compensation paid to employees by the Bank for the years ended 31 December 2007 and 2008 was ₱6.6 billion and ₱6.5 billion, respectively.

The Bank operates a provident fund which provides housing loans and other subsidised loans to employees in addition to providing a lump sum payment on retirement. As at 31 December 2008, the value of the fund assets was ₱4.5 billion. The fund is managed by the Bank's Trust Banking Group.

The retirement funds operated by the Bank and certain of its subsidiaries are funded non-contributory retirement plans covering all their permanent and full-term officers and employees. For the three years ended 31 December 2006, 2007 and 2008, the Group's retirement expenses associated with these plans amounted to ₱359.2 million, ₱711.7 million, and ₱1.0 billion, respectively.

For the years ending 31 December 2007 and 2008, the fair value of the retirement plan assets of the Group amounted to ₱4.0 billion and ₱4.6 billion, respectively. As at 31 December 2007 and 31 December 2008, there was a net retirement liability of ₱241.8 billion and ₱1.4 billion, respectively which are amortized by the Group over the estimated average remaining working lives of participating employees. The other principal actuarial assumptions used by the Bank to determine retirement benefits include an expected rate of return on assets of 6.0% to 10.0% and a salary increase of 7.0% to 10.0% per annum, compounded annually. If these assumptions prove to be incorrect, the Bank's funding obligations in respect of its retirement plans may be significantly higher. This would require the Bank to increase the amount it amortizes each year in respect of its retirement fund liabilities, which would adversely affect the Bank's net income. See Note 26 to the Audited Consolidated Financial Statements. The Bank plans to reassess the unfunded actuarial liability in relation to the Group's retirement plan.

PRINCIPAL SHAREHOLDERS

The following table shows the principal shareholders of the Bank, holding more than 5 % of the outstanding shares, as shown in the Bank's share register as at 31 December 2008:

Name of shareholder	No. of Shares	% of Total Shares
PCD Nominee Corporation (Non-Filipino)	507,967,652	28.107
Grand Titan Capital Holdings Corporation[1]	452,000,000	25.010
PCD Nominee Corporation (Filipino)	188,996,748	10.458
Philippine Securities Corp.	122,540,044	6.780
Federal Homes, Inc.[2]	116,526,050	6.448

Note:

(1) Grand Titan Capital Holdings Corporation is majority-owned by four members of the Ty family.

(2) Federal Homes, Inc. is majority-owned or controlled by Dr. Ty, the Chairman of the Metrobank group.

Other than as specified above, the Bank is not aware of any other person of group of persons, directly or indirectly, with interests in 5% or more of the issue capital stock of the Bank.

Control of the Bank and relationship with the Ty family and related parties

As at 31 December 2008, Dr. Ty directly owned approximately 0.5% of the Bank, and together with other Ty family members and associated companies, owned directly and indirectly in aggregate approximately 54.2% of the ordinary shares and effectively controlled the Bank and the composition of its Board of Directors. As at 31 December 2008, approximately 45.8% of the ordinary shares were held by the public.

Dr. Ty's involvement in the day-to-day operation of the Bank is limited, with management delegated to an independent team of professional bankers and other specialists. This team is responsible for the Bank's day-to-day operations in conjunction with other members of the Ty family. Dr. Ty does, however, retain a degree of control over the Bank's

activities. He plays an active part in the planning of the Bank's strategic development. His wife, Mrs. Mary Vy Ty, who has been involved with the Bank for the past 30 years, has been the Assistant to the Chairman since May 1995 and was previously Assistant to the President. Dr. Ty's son, Mr. Arthur V. Ty, is the President of the Bank since May 2006. Mr. Arthur V. Ty was also appointed Vice-Chairman of the Bank in 2004. The Bank believes that Dr. Ty, in his role as corporate strategist, has been able to contribute valuable insight gained through his extensive business experience and contacts in the Philippines and elsewhere in Asia.

BANKING REGULATION AND SUPERVISION

The New Central Banking Act of 1993 (Republic Act No. 7653) and the General Banking Law vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, co-operative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board of the BSP.

The BSP's Manual of Regulations for Banks (the "Manual") is the principal source of rules and regulations that must be complied with by banks in the Philippines. The Manual contains regulations applicable to universal banks, commercial banks, thrift banks, rural banks and non-bank financial intermediaries performing quasi-banking functions. These regulations include those relating to the organization, management and administration, deposit and borrowing operations, loans, investments and special financing programme, and trust and other fiduciary functions. Supplementing the Manual are rules and regulations disseminated through various circulars, memoranda, circular letters and other directives issued by the Monetary Board of the BSP.

The Manual and other BSP rules and regulations are principally implemented by the Supervision and Examination Sector (the "SES") of the BSP. The SES is responsible for monitoring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions).

PERMITTED ACTIVITIES

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a regular commercial bank, (ii) the powers of an investment house and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100.0% of the equity in a thrift bank, a rural bank or a financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100.0% of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorized by the General Banking Law and the Manual, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) rent out safety deposit boxes, (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business.

Financial allied undertakings include leasing companies, banks, investment houses, financial companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage, securities dealership and brokerage and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0% of its net worth. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0% of the net worth of the bank.

REGULATIONS

The Manual and various BSP regulations impose the following restrictions on commercial, universal and savings banks.

Minimum Capitalization

Under the Manual, universal banks, such as the Bank, are required to have capital accounts of at least ₱5.4 billion. Commercial banks are required to have capital accounts of at least ₱2.8 billion. Thrift banks with a head office in Metro Manila are required to have capital accounts of at least ₱400.0 million. These minimum levels of capitalization may be changed by the Monetary Board of the BSP from time to time. Currently, the BSP requires minimum capital accounts of ₱4.95 billion for universal banks, ₱2.4 billion for commercial banks and ₱325.0 million for thrift banks with a head office in Metro Manila.

For the purposes of these requirements, the Manual provides that capital shall be the combined capital accounts or net worth and shall refer to the combined total of the unimpaired paid-in capital, surplus (including paid-in surplus), and undivided profits, net of: (a) such unbooked valuation reserves and other capital adjustments as may be required by the BSP; (b) total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI; (c) deferred income tax; (d) appraisal increment reserve (revaluation reserve) as a result of appreciation or increase in the book value of bank assets; (e) equity investment of a bank in another bank or enterprise (foreign or domestic) if the other bank or enterprise has a reciprocal equity investment in the investing bank, in which case, the investment of the bank or the reciprocal investment of the other bank or enterprise, whichever is lower; and (f) in the case of rural banks, the Government counterpart equity, except those arising from conversion of arrears under the BSP rehabilitation programme.

Capital Adequacy Requirements

In July 2001, the Philippines adopted the capital adequacy framework of the Basel Committee on Banking Supervision. The Manual provides that the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, must not be less than 10.0%. The ratio is required to be maintained daily on both a solo basis (head office plus branches) and a consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies). The qualifying capital refers to the sum of Tier 1 or core capital and Tier 2 or supplementary capital of the bank, less deductions of the value of certain assets. The risk-weighted assets, on the other hand, are determined by assigning risk weights to amounts of on-balance sheet assets and to credit equivalent amounts of off-balance sheet items (inclusive of derivative contracts), subject to the deduction of the following items: (a) General loan loss provision (in excess of the amount permitted to be included in upper Tier 2 capital) and (b) unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board of the BSP. Any asset deducted in computing for the qualifying capital must not be included in the risk-weighted assets in computing the denominator of the ratio. The risk-weighted amount shall be the product of the book value of assets multiplied by the risk weight associated with that asset. The following assets are classified as zero risk weight: (a) cash on hand; (b) claims on, or portions of claims guaranteed by or collateralised by, securities issued by (x) the Government or the BSP, or (y) central governments and central banks of foreign countries with the highest credit quality; (c) loans to the extent covered by hold-outs on, or assignment of, deposits/deposit substitutes maintained with the lending bank; (d) loans or acceptances under LCs to the extent covered by margin deposits; (e) portions of special time deposit loans covered by Industrial Guarantee and Loan Fund guarantees; (f) real estate mortgage loans to the extent guaranteed by the Home Guaranty Corporation; (g) loans to the extent guaranteed by the Trade and Investment Development Corporation of the Philippines; (h) loans to exporters to the extent guaranteed by the Guarantee Fund for Small and Medium Enterprises; (i) foreign currency notes and coins on hand acceptable as international reserves; and (j) gold bullion held either in its own vaults, or in another's vault on an allocated basis, to the extent offset by gold bullion activities.

Reserve Requirements

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

Commercial banks (including the Bank), are required to maintain regular reserves of 8.0% against demand and savings deposits, Negotiable Order of Withdrawal accounts, time deposits, deposit substitutes, interbank call loans and bonds, and 2.0% against long-term negotiable Certificates of Time Deposit.

In addition to the foregoing regular reserve requirements, commercial banks are required to set up liquidity reserves against Peso demand, savings and time deposits and deposit substitute liabilities equivalent to 11.0%

Loan Limit to a Single Borrower

Under the General Banking Law and its implementing regulations, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any borrower shall at no time exceed 20.0% of the net worth of such bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board of the BSP from time to time. As at 31 December 2008, the applicable ceiling was 25.0%.

Pursuant to the General Banking Law, the basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to or on behalf of the borrower, which includes outstanding loans and other credit accommodations, deferred LCs less margin deposits, and guarantees. Except as specifically provided in the Manual, total credit commitment is determined on a credit risk-weighted basis consistent with existing regulations. Other credit accommodations refer to credit and specific market risk exposures of banks arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables), and debt securities booked as investments. Among the items excluded from determining the loan limit are: (a) loans and other credit accommodations secured by obligations of the BSP or of the Government, (b) loans and other credit accommodations fully guaranteed by the Government as to payment of principal and interest, (c) loans and other credit accommodations secured by U.S. treasury notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies, (d) loans and other credit accommodations to the extent covered by hold-out on or assignment of deposits maintained in the lending bank and held in the Philippines, (e) loans, credit accommodations and acceptances under LCs to the extent covered by margin deposits and (f) other loans or credit accommodations which the Monetary Board of the BSP may from time to time specify as non-risk items.

Trust Regulation

The Manual contains the regulations governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the Manual. The Bank may, under its Articles, accept and manage trust funds and properties and carry on the business of a trust corporation.

Foreign Currency Deposit System

A FCDU is a unit of a local bank or of a local branch of a foreign bank authorized by the BSP to engage in foreign currency-denominated transactions. Commercial banks which meet the net worth or combined capital accounts and profitability requirements prescribed by the Monetary Board of the BSP may be authorized to operate an expanded FCDU. Thrift banks with a net worth or combined capital accounts of at least ₱325.0 million if they are located in Metro Manila, and ₱52.0 million if they are located outside Metro Manila, may be authorized to operate FCDUs. In general, FCDUs of such banks may, in any acceptable foreign currency (a) accept deposits and trust accounts from residents and non-residents; (b) deposit with foreign banks abroad, offshore banking units ("OBUs") and other FCDUs; (c) invest in foreign currency-denominated debt instruments; (d) grant foreign currency loans as may be allowed by the BSP; (e) borrow from other FCDUs, from non-residents and OBUs, subject to existing rules on foreign borrowings; and (f) engage in foreign currency to foreign currency swaps with the BSP, OBUs and FCDUs. In addition to the foregoing, commercial banks and universal banks may: (a) engage in foreign exchange trading and, with prior BSP approval, engage in financial futures and options trading; (b) on request/instruction from its foreign correspondent banks. Provided that the foreign correspondent banks deposit sufficient foreign exchange with the FCDU: (i) issue LCs for a non-resident importer in favor of a non-resident exporter, (ii) pay, accept, or negotiate drafts/bills of exchange drawn under the letter of credit and (iii) make payment to the order of the non-resident exporter; and (iv) engage in securities lending activities subject to certain conditions. FCDUs are required to maintain a 100.0% cover for their foreign currency liabilities. FCDUs of universal and commercial banks and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.0% of their foreign currency deposit liabilities as a form of foreign exchange cover.

Lending Policies, Secured and Unsecured Lending

Banks are generally required to ascertain the purpose of a proposed loan, and the proceeds of the loan are to be used for that purpose only. Under existing regulations, commercial and universal banks are generally prohibited from extending loans and other credit accommodations against real estate in an amount exceeding 60.0% of the appraised value of the real estate security, plus 60.0% of the appraisal value of the insured improvements, except for (i) residential loans in an amount not exceeding ₱3.5 million; (ii) housing loans extended by or guaranteed under the Government's "National Shelter Programme", which shall be allowed a maximum value of 70.0% of the appraisal value of the insured improvements; and (iii) subject to certain conditions, loans for house-building and sub-division development for low- and middle-income families and other housing loans, which shall be allowed a maximum value of 80.0% of the appraised value of the real estate security. Similarly, loans and other credit accommodations on security of chattels and intangible properties shall not exceed 75.0% of the appraisal value of the security. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial condition and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any lending should be only for a time period essential for completion of the operations to be financed.

Mandatory Lending Requirements

BSP regulations currently provide that commercial banks should set aside 25.0% of loanable funds for loans to the agricultural sector in general, with 10.0% of such funds being made available exclusively to agrarian reform beneficiaries. Loanable funds are defined to include the net increase in a bank's funds from 25 May 1975. However, a bank may temporarily meet all or a portion of its agrarian reform and agriculture lending requirements by investing in certain Government securities under certain conditions.

R.A No. 8289 provides that until August 2007, banks are required to set aside at least 6.0% for small-sized and 2.0% for medium-sized enterprises, of their total loan portfolio based on their balance sheet as at the previous quarter for lending to such enterprises. Investments in Government securities will not satisfy such obligation. The possible extension of the law's effectivity is under consideration in the Philippine congress.

In addition, branches or agencies of commercial banks located within certain geographical groupings outside Metro Manila must lend at least 75.0% of total deposits, net of required reserves and total cash in vault, at such branches to businesses in their locality. This policy is deemed to be complied with if, in the relevant geographical grouping, the bank's total lending for the financing of agricultural and export industries constitutes 60.0% of its deposits. However, for the purposes of compliance with this requirement, loans granted at the head office or other offices to customers in that area may be assigned to the branch in the geographic area in which the customer is located.

With the enactment of Barangay Micro Business Enterprises ("BMBEs") Act or R.A. No. 9178, private banking and other financial institutions were encouraged to lend to BMBEs. Among the incentives of the law is that all loans granted to BMBEs shall be considered as part of alternative compliance to the rules on reservation of funds for the agricultural sector and small- and medium-sized enterprises.

Qualifications of Directors and Officers

Under the Manual, bank directors and officers must meet certain minimum qualifications. For instance, directors must be at least 25 years old, have a college degree or have at least five years' business experience, while officers must be at least 21 years old, have a college degree, or have at least five years' banking or trust experience.

Certain persons are disqualified from acting as bank directors, including (a) persons who have been convicted of an offence involving moral turpitude or have been declared insolvent or incapacitated; (b) persons who have been removed by the Monetary Board of the BSP; (c) persons who refuse to disclose business interests; (d) resident directors who have been absent for more than half of directors meetings; (e) persons who are delinquent in their obligations; (f) persons who have been found to have wilfully refused to comply with applicable banking laws or regulations; and (g) persons who have been dismissed for cause from any institution under the supervision of the BSP. When the ground for disqualification ceases to exist, the director or officer concerned may subsequently become a director or officer of institutions regulated by the BSP only upon approval of the Governor of the BSP. In addition, except as may be permitted

by the Monetary Board of the BSP, directors or officers of banks are also generally prohibited from simultaneously serving as directors or officers of other banks or non-bank financial intermediaries.

Loans to DOSRI

The amount of individual outstanding loans, other credit accommodations and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and book value of their paid-in capital contribution in the bank. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0% of the bank's combined capital accounts or 15.0% of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30.0% of their outstanding loans, other credit accommodations and guarantees. For the purpose of determining compliance with the aggregate ceiling on unsecured credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit guarantees and guarantees every quarter.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are the bank's directors, officers, stockholders and their related interests, subject to certain conditions.

Valuation Reserves for Credit Losses Against Loans

As a general rule, banking regulations define past due accounts of a bank as referring to all accounts in a bank's loan portfolio, all receivable components of trading account securities, and other receivables that are not paid at maturity. In the case of loans or receivables payable in instalments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

Mode of Payment	Minimum Number of Instalments in Arrears
Monthly	3
Quarterly	1
Semestral	1
Annually	1

However, when the total amount of arrears reaches 20.0% of the total outstanding balance of the loan or receivable, the total outstanding balance of the loan or receivable is considered past due notwithstanding the number of instalments in arrears.

BSP regulations allow loans and advances to be written-off as bad debts only if it can be justified to be uncollectible. The board of directors of the bank has discretion as to the frequency of write-offs provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to the bank's directors, officers, stockholders and their related interests.

On 26 January 2003, the SPV Act came into force. The SPV Act provides the legal framework for the creation of private management companies that will acquire non-performing loans, real estate and other assets from financial institutions in order to encourage new lending to support economic growth. Congress passed the SPV Act's implementing rules and regulations on 19 March 2003 and they came into force on 12 April 2003. On 24 April 2006, the Philippine president signed into law an amendment to the SPV Act, extending the deadline for the creation of asset management companies entitled to tax breaks to 18 months after the amended SPV Act takes effect or until 14 November 2007. The amendatory law also extended the tax exemption and fee privileges of SPVs to those transactions that occur up to 14 May 2008.

Guidelines on General Reserves

Under existing BSP regulations, a general provision for loan losses shall also be set up as follows: (i) 5.0% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations; and (ii) 1.0% of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws and regulations.

Restrictions on Branch Opening

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board of the BSP, to use any or all of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units. In line with this, the Manual provides various minimum capitalization requirements for branches of universal/commercial banks, depending on the location of the branch, ranging from a minimum of ₱15.0 million for branches of universal/commercial banks to be located in fourth and sixth class municipalities to a maximum of ₱50.0 million for the same to be located in the National Capital Region. A bank must first comply with this minimum capital requirement in order to be given authority to establish more branches.

Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch should be opened within six months from the date of approval (extendible for another six-month period, upon the presentation of justification therefor). Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks shall be allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila. However, branches of microfinance-orientated banks, microfinance-orientated branches of regular banks and branches that will cater primarily to the credit needs of BMBEs duly registered under the Barangay Micro Business Enterprises Act of 2002 (R.A. No. 9178) may be established anywhere upon the fulfilment of certain conditions.

Anti-Money Laundering Law

The Anti-Money Laundering Act was passed on 29 September 2001 and was amended on 23 March 2003. Under its provisions, as amended, certain financial intermediaries including banks, offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, and insurance companies and/or institutions regulated by the Insurance Commission, are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱0.5 million within one banking day.

These institutions are also required to submit a "suspicious" transaction report if there is reasonable ground to believe that any amounts processed are the proceeds of money laundering activities.

BSP Circular No. 495 (2005) requires all universal and commercial banks in the Philippines to have an electronic money laundering transaction monitoring system in place by October 2007. Each system should have the ability to detect and bring to the relevant institution's attention all transactions and/or accounts that either qualify as "covered transactions" or "suspicious transactions".

These transactions are reported to the Anti-Money Laundering Council ("AMLC") created under the law within five banking days of discovery of that transaction by the covered institution. The Court of Appeals, upon application by the AMLC, has the authority to issue freeze orders on any accounts which is suspected as being used for money laundering to be frozen.

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

TAXATION

The following is a general description of certain Philippine tax aspects of the Series 2 Notes. It is based on the laws, regulations, and administrative rulings in force as at the date of this Offering Circular and is subject to any changes in law or regulation occurring after such date, which changes can be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own, or dispose of the Series 2 Notes. Prospective purchasers should consult their tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding, and disposing of the Series 2 Notes.

Taxation of Interest

The Series 2 Notes will be treated as deposit substitute instruments. Consequently, interest income earned by individual citizens, resident aliens, and non-resident aliens engaged in trade or business in the Philippines as holders of the unsecured subordinated notes will generally be subject to a 20.0% final withholding tax. However, the Series 2 Notes may qualify as long-term deposit or investment, in which case, interest income derived by said individuals may be exempt from the said 20.0% final withholding tax provided the investment is not pre-terminated before the fifth (5th) year.

Interest Income received by domestic and resident foreign corporations shall be subject to the final withholding tax of 20.0%. Interest income received by non-resident aliens not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25.0%. The foregoing rates may be reduced under an applicable tax treaty.

Under Rep. Act No. 9337 (amending the National Internal Revenue Code), interest income received by a non-resident foreign corporation shall generally be subject to the 35.0% final withholding tax provided that effective January 1, 2009, the rate of income tax shall be 30.0%. This rate may also be reduced under an applicable tax treaty.

Documentary Stamp Taxes

The issuance of the Series 2 Notes will be subject to documentary stamp tax at the rate of ₱1.00 for every ₱200.00 of the issue value of such notes. The Bank is liable for the payment of the documentary stamp tax on the original issuance of the unsecured subordinated notes. No documentary stamp tax is imposed on the secondary transfer of the unsecured subordinated notes.

Taxation on Sale or Other Disposition of Series 2 Notes

A holder will recognize gains or losses upon the sale or other disposition (including a redemption at maturity) of a Note in an amount equal to the difference between the amount realized from such disposition and the value of such holders interest in the Note. Under the Tax Code, any gain realized from the sale, exchange, or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures, or other certificates of indebtedness) is exempt from income tax. Since the Series 2 Notes have a maturity of more than five years from the date of issuance, any gains realized by a holder from the sale of the Series 2 Notes will be exempt from Philippine income tax.

Value-Added Tax/Gross Receipts Tax

The gross income from the sale or transfer of the Series 2 Notes in the Philippines by dealers in securities is subject to VAT at the rate of 12.0% of the gross income. Banks and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax as the following rates:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less —	5.0%
Maturity period is more than 5 years —	1.0%

(b) On dividends and equity shares and net income of subsidiaries — 0%

(c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under the Tax Code — 7.0%

(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments — 7.0%

Other nonbank financial intermediaries are subject to gross receipts tax at the following rates:

(a) On interest, commissions, discounts and all other items treated as gross income under the Tax Code– 5.0%

(b) On interests, commissions and discounts from lending activities, as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less —	5.0%
Maturity period is more than 5 years —	1.0%

Estate and Donor's Tax

The transfer of Series 2 Notes as part of the estate of a deceased individual to his heirs, whether or not such individual was a resident of the Philippines at the time of his death, will be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5.0% to 20.0% if the value of the net estate exceeds ₱200,000.00.

A holder of such Series 2 Notes will be subject to donor's tax upon the donation of the Series 2 Notes to strangers at a flat rate of 30.0% of the net gifts. A stranger is defined as any person who is not a brother, sister (whether by whole-or half-blood), spouse, ancestor and lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship to the Noteholder. A donation to a non-stranger will be subject to a donor's tax at progressive rates ranging from 2.0% to 15.0% based on net gifts made during the calendar year in excess of ₱100,000.00.

The estate tax as well as the donor's tax in respect of the Series 2 Notes shall not be collected (i) if the deceased at the time of death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

DISTRIBUTION AND SALE

Method of Distribution

The Series 2 Notes are being issued pursuant to an approval by the BSP dated 2 September 2008 and subject to the terms and conditions of the Master Note, as well as BSP Circular No. 280 (2001) and 503 (2005) and the BSP Memorandum to All Banks and Non-Bank Financial Institutions, dated 17 February 2003, as may be amended.

The Series 2 Notes are being issued by the Issuer with (a) ING Bank N.V., Manila Branch, and Standard Chartered Bank, Manila Branch as Joint Lead Managers, Selling Agents, and Market Makers, (b) the Bank and First Metro Investment Corporation as Limited Selling Agents, (c) Multinational Investment Bancorporation as Selling Agent and Market Maker, (d) PNB Capital and Investment Corporation as Selling Agent (e) Philippine Depository & Trust Corp. as Registrar and Paying Agent, and (f) Development Bank of the Philippines – Trust Services as Public Trustee.

No action has been or will be taken by the Issuer or the Joint Lead Arrangers in any jurisdiction (other than the Philippines), that would permit a public offering of any of the Series 2 Notes, or possession or distribution of this Offering Circular, or any amendment or supplement thereto issued in connection with the offering of the Series 2 Notes, in any country or jurisdiction where action for that purpose is required.

The Joint Lead Arrangers are required to comply with all laws, regulations and directives as may be applicable in the Philippines, including without limitation any regulations issued by the BSP, in connection with the offering and purchase of the Series 2 Notes and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Joint Lead Arrangers in connection therewith.

Applications to Purchase the Series 2 Notes during the Offer Period

Applicants may purchase the Series 2 Notes during the Offer Period by submitting fully and duly accomplished Applications to Purchase the Series 2 Notes, in quadruplicate together with all the required attachments and the corresponding payments to the Selling Agent from whom such application was obtained no later than 5:00 p.m. of the last day of the Offer Period. Applications received after said date or without the required attachments will be rejected. Only Applications to Purchase which are accompanied by cheque payments or covered by appropriate debit instructions made out to the order of "Metrobank Tier 2 Series 2 Notes Offering" covering the entire purchase price shall be accepted by the Selling Agents.

If the Applicant is an individual, the following documents must also be submitted:

a. A clear copy of at least one (1) valid photo-bearing identification document issued by an official authority in accordance with BSP Circular No. 608 (2008) as may be amended from time to time, and documents as may be required by to the Registrar and/or Selling Agent concerned;
b. Two (2) fully executed signature cards in the form attached to the application; and
c. For aliens residing in the Philippines or non-residents engaged in trade or business in the Philippines, consularized proof of tax domicile issued by the relevant tax authority of the Applicant.

If the Applicant is a corporation, partnership, trust, association or institution, the following documents must also be submitted:

a. SEC-certified or Corporate Secretary-certified true copy of the SEC Certificate of Registration, Articles of Incorporation and By-Laws or such other relevant organizational or charter documents;
b. Original or Corporate Secretary-certified true copy of the duly notarized certificate confirming the resolution of the Board of Directors and/or committees or bodies authorizing the purchase of the Series 2 Notes and specifying the authorized signatories; and

c. Two (2) fully executed signature cards duly authenticated by the Corporate Secretary, in the form attached to the application.

Corporate applicants who are claiming tax exemption must also submit the following:

a. Certified true copy of the original tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue on file with the Applicant as certified by its duly authorized officer;
b. Original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exempt status and agreeing to indemnify and hold the Issuer and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and
c. Such other documentary requirements as may be required by the Registrar as proof of the Applicant's tax-exempt status.

Allocation and Issue of the Series 2 Notes

Applications to Purchase the Series 2 Notes shall be subject to the availability of the Series 2 Notes and acceptance by the Issuer. The Joint Lead Arrangers, in consultation with the Issuer, reserve the right to accept, reject, scale down or reallocate any Application to purchase the Series 2 Notes applied for.

In the event that payment supporting any Application is returned by the drawee bank for any reason whatsoever, the Application shall be automatically cancelled and any prior acceptance of the Application shall be deemed revoked. If any Application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Selling Agent.

On the Issue Date, the Selling Agents shall, on behalf of the Issuer, accept the relevant Applications to Purchase. The acceptance of the Application to Purchase shall *ipso facto* convert such Application to Purchase into a purchase agreement between the Issuer and the relevant Noteholder.

Upon confirmation by the Issuer of acceptance of the relevant Applications and the respective amount of Series 2 Notes, the Selling Agents shall issue the relevant purchase advice (the "Purchase Advice") to successful applicants confirming the acceptance of their offer to purchase the Series 2 Notes and consequent ownership thereof and stating the pertinent details including the amount accepted, with copies to the Registrar.

The Registrar shall rely solely on the Purchase Advice in its preparation of the Registry and the issuance of the Registry Confirmation for each Noteholder. Within five (5) Banking Days from the Issue Date, the Registrar shall distribute the Registry Confirmations directly to the Noteholders in the mode elected by the Noteholder as indicated in the Application to Purchase.

Transactions in the Secondary Market

All secondary trading of the Series 2 Notes shall be coursed through a Market Maker or effected using the trading facilities of PDEx, as applicable, subject to the payment by the Noteholder of fees to the Market Maker or payment of applicable fees in connection with trading on PDEx, and the Registrar.

The Bank intends to list the Series 2 Notes in PDEx for secondary market trading. Upon listing of the Series 2 Notes with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines, which may include guidelines on minimum trading lot and record dates.

Any transfer between investors of different tax status with respect to the Issue shall only be effective on an Interest Payment Date. No transfers will be effected during the period between the Record Date and the Banking Day immediately prior to an Interest Payment Date or Principal Payment Date, inclusive.

The Registrar shall register any transfer of the Series 2 Notes upon presentation to it of the following documents in form and substance acceptable to it:

- the seller/transferor's Letter of Authority to Sell;
- Letter Instruction of the Market Maker (to the extent that the Series 2 Notes are not listed on the PDEx or other exchange);
- the relevant Purchase Advice of the buyer/transferee (with the information provided therein duly set forth in typewritten form);
- duly accomplished Investor Registration Form of the buyer/transferee as prescribed by the Registrar as well as all supporting documents described for the original issuance of the Series 2 Notes as described above (in case of a new holder);
- proof of the qualified tax-exempt status of the transferee, if applicable, and the covering Affidavit of Undertaking;
- proof of payment of applicable taxes (if any are due);
- the original duly endorsed signature cards of the buyer/transferee and such other original or certified true copies of other documents submitted by the buyer/transferee in support of the transfer or assignment of the Series 2 Notes in its favor;
- the appropriate secretary's certificate attesting to the board resolutions authorizing the transfers and acceptances as well as designating the authorized signatories, together with specimen signature cards duly signed by the parties, and duly authenticated by each party's corporate secretary; and
- such other documents that may be required by the Registrar, including those for Non-Trade Transactions.

Transfers of the Series 2 Notes made in violation of the restrictions on transfer under the Terms and Conditions shall be null and void and shall not be registered by the Registrar.

Interest and Principal Payment

On the relevant Payment Date, the Registrar shall, upon receipt of the corresponding funds from the Issuer, make available to the Noteholders the amounts due under the Series 2 Notes, net of taxes and fees (if any), by way of credits to the bank accounts identified by the Noteholders in the Applications to Purchase.

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Audited Consolidated Financial Statements as at and for the Years Ended 31 December 2008 and 31 December 2007

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Makati City

FINANCIAL ADVISOR AND LIMITED SELLING AGENT
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